

V.C. Summer Nuclear Station Units 2 and 3
Recommendations for Milestone Payment Structure Carve-outs

Secretariat
3 November 2016

3 November 2016

The purpose of this document is to provide Secretariat's position on the carve-outs of the \$6.082B fixed price, which is a necessary step to determine the remaining amount allocable to the construction milestones. This position is based on information received from WEC and the Owner as explained below.

Material & Module Procurement:

Mr. Harvey testified in the DRB that payments to WEC under the "Material & Module Procurement" carve-out should represent only 'stored material'.¹ Therefore any billings under this carve-out should follow these principles:

- The items should include only things that will be incorporated into the permanent works. They should not include consumables, tools, equipment, distributables, temporary construction items, etc.
- The material should be stored on site or other Owner-controlled facilities.
- The carve-out amount is understood to be a "not to exceed" value.
- The carve-out should represent actual costs paid by Contractor, and should not include G&A or profit.

Following WEC's 18 October 2016 presentation of its proposed CMPS approach and a 26 October 2016 conference call with WEC and the Owner wherein Secretariat provided its response to WEC's proposed carve-outs and milestone valuation methodology, Secretariat further explained its concerns about the Procurement carve-out and requested clarifications from WEC on 27 October 2016, as listed below:²

"We view the material procurement carve-out as being payable only for stored materials that are to be incorporated into the permanent works and delivered to the site (or to an Owner-controlled off-site storage). Moreover, we believe the amount of any Procurement and/or Subcontractor carve-outs should be reduced to reflect monies paid since May 2016 through November 2016.

"Please provide a written explanation of the types of material that WEC intends to seek reimbursement for under its proposed carve-out. Specifically, does WEC intend to seek reimbursement for materials other than stored materials that are to be incorporated into the permanent works and which have been delivered to the site or other Owner-controlled off-site storage?

"WEC is also requested to provide a listing of the major suppliers it intends to seek reimbursement for under the procurement carve-out, the categories of materials those suppliers are furnishing and the estimated amounts that WEC intends to seek under the Procurement carve-out on a monthly basis."

WEC responded on 28 October 2016 as follows:³

¹ DRB 30 August 2016, p. 255:7-13

² Secretariat (W. Patton) email to WEC (J. Hyde) 27 October 2016 6:44 PM

³ WEC (J. Hyde) email to Secretariat (W. Patton) 28 October 2016, 2:41 p.m.

V.C. Summer Nuclear Station Units 2 and 3
Recommendations for Milestone Payment Structure Carve-outs

Secretariat
3 November 2016

"Regarding ... Procurement (materials/modules/equipment/consumables, etc.), the Contractor intends to request payment in compliance with the Secretariat/Owner-proposed and DRB-adopted guidance as set out in the DRB order dated September 30, 2016. (Emphasis added).

"A. Procurement – will include all procurement to the specified carve out amount (approximately \$1B) to fulfill Contractor's obligations under the October. In the event of insufficient space at site for storage, approved offsite storage areas of Blythewood and Metro will be used. (Emphasis added).

"The Contractor intends to comply with the DRB guidance and request Owner payment "on an invoice basis with prompt payment and no holdback". For both Procurement and Subcontracts, payment will be requested from Owner within 15 calendar days of submission of an invoice triggered by the Contractor's approval of the third party invoice for payment and entry into the Contractor's accounts payable system for processing. The Contractor will not expect Owner payment for invoices which are rejected for payment or not approved for payment by Contractor in accordance with the purchase order or subcontract terms. Please be aware that the Owner has audit rights under the October." (Emphasis added).

WEC subsequently provided monthly planned expenditure information on 31 October 2016, in the form of its *"latest forecast of Procurements and Subcontracts from October 2016 to end of project"* (ref: *"Procurements_Subs Forecast 20161031.xlsx"*).⁴ In that analysis, WEC reported that it expects to spend over \$1.081B on "Procurement" from December 2016 until the end of the project. This represents an increase over the \$1.077B it had forecast in May 2016, and apparently reflects no reduction in the carve-out amount for its estimated \$341M in procurement expenditures during the six months from June through November 2016, despite interim payments to the Contractor totaling \$699.5M in that same period.

WEC did not provide the requested listing of the major suppliers for which it intends to seek reimbursement under the procurement carve-out, or the categories of materials those suppliers are furnishing. Moreover WEC introduced new elements into this carve-out. In its 31 October 2016 forecast, WEC stated that *"Procurement includes Equipment, Materials, Modules, & Distributables"*. WEC did not define *"Equipment"* or *"Distributables"*, but in WEC's May 2016 data those items appear to have been part of a category "DSTRB/ CNST EQ/ MISC" which was separate from "PROC" (Procurement) and "MODULES", as shown below in the annotated excerpt below at row 11.

⁴ WEC (J. Hyde) email to the Owner (B. Best and A. Smith) 31 October 2016, 5:10 p.m.

V.C. Summer Nuclear Station Units 2 and 3
Recommendations for Milestone Payment Structure Carve-outs

Secretariat
3 November 2016

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S
	For Sell/Benefit/Bonus/Incentives Only - Not Admissible for Any Purpose																		
	5/2/2016																		
	Contractor Cost Commitment Drivers for Construction Payment Milestone Amounts (per October 2015 Amendment)																		

On 1 November 2016, Secretariat sent WEC further queries about its new Procurement information.⁵
The key points of inquiry were:

- Is WEC increasing its proposed amount for the Procurement carve-out from \$1.077B to \$1.082B?
- Is WEC making no downward adjustment for Procurement expenditures during June through November 2016?
- Explain/describe the items covered in its categories "Equipment" and "Distributables", and provide a breakdown of it \$1.082B into the four WEC categories of Equipment, Materials, Modules and Distributables.
- Define WEC's proposed mark-up it would apply to invoices submitted under this carve-out. (WEC has stated that it intended to apply a mark-up for G&A (or perhaps G&A + profit) on the Procurement invoices.
- Define the type of substantiation WEC intends to provide for reimbursement under the Procurement carve-out.⁶
- Clarify whether WEC intends to seek reimbursement under the Procurement carve-out for off-site fabrication of undelivered items.⁷

WEC responded to the above queries on 2 November 2016.⁸ The main points of WEC's response are summarized below.

- WEC is increasing its proposed amount for the Procurement carve-out from \$1.077B to \$1.082B.
- WEC's May 2016 "Contractor Cost Commitment Drivers for Construction Payment Milestone Amounts (per October 2015 Amendment)" is not comparable to WEC's latest forecast because the May 2016 data was a "representative cost driver element used to illustrate the application of

⁵ Secretariat (W. Patton) emails to WEC (J. Hyde) 1 November 2016, 2:52 p.m. and 1 November 2016, 4:02 p.m.

⁶ The Owner understands that WEC intends to substantiate its procurement reimbursement requests not with invoices and proof of delivery to acceptable on-site or off-site storage, but rather by providing accounts payable reports or some similar accounting output that essentially would consist of a listing of supplier invoices for which reimbursement is being sought.

⁷ The Owner understands that WEC intends to include within its procurement reimbursement requests certain supplier invoices for partial progress on off-site fabrications on items that will have not yet been delivered to the site.

⁸ Two WEC (J. Hyde) emails to Secretariat (W. Patton) both time-stamped 2 November 2016, 12:25 p.m.

V.C. Summer Nuclear Station Units 2 and 3
Recommendations for Milestone Payment Structure Carve-outs

Secretariat
3 November 2016

Owner payment amount, and the latest forecast *"is an invoice basis as per the DRB order, of Procurement from December 1 to end of project"*. Thus, WEC is not considering any expenditures for material procurement in the June – November 2016 time frame.

- The proposed Procurement category *"Equipment"* is for Plant Equipment, and does not include any F.1.1.1 material.
- The proposed Procurement category *"Distributables"* includes things such as welding supplies, office supplies, security supplies, drug testing supplies, computers, temporary buildings, small tools, scaffolding, warehouse supplies, etc.
- The breakdown of the aggregate Procurement forecast is: Equipment: \$243M, Distributables: \$238M, Materials: \$254M, Modules: \$347M for a total of \$1.082B
- WEC has applied a G&A mark-up of 5.27% on its forecasted Procurement.
- For substantiation of the requested reimbursement under the Procurement carve-out, WEC will provide a copy of its accounts payable (AP) report showing the vendor/supplier/subcontractor, purchase order, invoice #, date issued for processing, and amount, and these will be limited to invoices Contractor has approved for payment. The Owner can identify specific invoices to view and WEC's accounting department will retrieve the selected invoices for Owner examination as part of the audit support.
- Regarding invoices for off-site fabrication and other undelivered items, WEC will be submitting vendor and supplier invoices that have been approved for payment under the terms of the respective purchase orders and have been entered into the accounts payable system.

Late on 2 November 2016 WEC transmitted a new proposed milestone payment approach wherein it combined Units 2 & 3 milestones for the purposes of milestone valuation and explained that *"Allocations are based on total project percent complete"*.⁹

On 3 November 2016, WEC supplemented its new approach with a spreadsheet breakdown of *"the elements of the Total Percent Complete calculation used by the Contractor in developing the construction milestone values."*¹⁰

Our review of this information is ongoing and Secretariat reserve the right to amend our position after a complete review of this new WEC approach. However we have some initial observations on WEC's new approach as it relates to a Procurement carve-out as listed below:

- The new approach values the milestones on the forecasted monthly *"Total Project %"*, which is a weighted composite percentage consisting of four elements tabulated as follows:
 - Construction 42.7%
 - Initial Test Program 2.3%
 - Procurement 45.4%
 - Engineering 9.6%
- Unlike WEC's 19 October 2016 approach wherein the forecasted progress curve for milestone valuation was based on direct labor to install commodities, WEC's new proposed progress curve

⁹ WEC (J. Hyde) email to the Owner (B. Best and A. Smith) 2 November 2016, 5:53 p.m.

¹⁰ WEC (J. Hyde) email to the Owner (B. Best and A. Smith) 3 November 2016, 10:00 a.m.

V.C. Summer Nuclear Station Units 2 and 3
Recommendations for Milestone Payment Structure Carve-outs

Secretariat
3 November 2016

and the milestone values derived therefrom include Procurement by definition. Thus any Procurement carve-out, and perhaps all carve-outs, are duplicative and no longer appropriate.

- We have concerns on the reliability of the data supplied. For example, under the element of Procurement WEC shows that as of November 2016 it is at 85.1% complete on Procurement, meaning that it has 14.9% left. In its Procurement carve-out detail, WEC stated that its forecasted remaining Procurement expenditure is \$1.082B. Since the forecasted \$1.082B equates to the 14.9% of the total Procurement that WEC reports is left, then WEC's total Procurement must be about \$7.26B, which does not seem realistic for an EPC contract understood to be currently valued at around \$11B.

Procurement: Conclusion

WEC has apparently acknowledged that its May 2016 "*Contractor Cost Commitment Drivers for Construction Payment Milestone Amounts (per October 2015 Amendment)*" are not reliable and that the Procurement carve-out should be based on its current forecast of \$1.082B, although it has provided no further transparency or documentation to substantiate that its current forecasts are any more reliable.

WEC has made no allowance / reduction in its proposed Procurement carve-out for materials paid for in June through November 2016 for which it has been reimbursed by the prescribed interim payments and for which the DRB has stated that there will be no true-up.

WEC seeks reimbursement for items that may have been fabricated off-site but have not been delivered to the site.

WEC states that at least \$238M of its forecasted \$1.082B for Procurement is for "*Distributables*" that are not part of nor incorporated into the permanent work, such as office supplies, security supplies, drug testing supplies, computers, temporary buildings, small tools, scaffolding, warehouse supplies, etc.

Based on the information provided, Secretariat recommends that the carve-out for Procurement be fixed at \$736M, or be eliminated in its entirety based on WEC's 2 November 2016 new proposed milestone payment approach which is still under review. Secretariat used WEC's May 2016 data to identify WEC's then-forecasted monthly costs assigned to "Materials & Module Procurement" by month.¹¹ After November 2016, \$736M of the \$1.077B originally discussed carve-out remains.

Secretariat further recommend that any WEC billing and Owner payments under a Procurement carve-out should follow these principles:

- The items should include only things that will be incorporated into the permanent works. They should not include consumables, tools, construction equipment, distributables, temporary construction items, etc.
- The material should be stored on site or other Owner-controlled facilities.

¹¹ DRB Exhibit OX-48, Harvey Exhibit DTH-06

V.C. Summer Nuclear Station Units 2 and 3
Recommendations for Milestone Payment Structure Carve-outs

Secretariat
3 November 2016

- Owner payments for Procurement should not include interim progress payments for fabrication of items that have not yet been delivered to the site or other Owner-controlled facilities.
- The carve-out amount is understood to be a "not to exceed" value.
- The carve-out should represent actual costs paid by Contractor, and should not include mark-up for G&A.
- Invoicing for the procurement carve-out should include bills of lading and/or packing lists showing quantified items, proof of delivery to site or other Owner-controlled facility, receipt inspection, supplier invoicing to WEC and proof of WEC payment.

Subcontractors:

Based on the information received and on our concerns expressed in correspondence to WEC, Secretariat believes that payments under a Subcontractor carve-out are no longer appropriate and that those monies are most fairly distributed via completed construction milestones that are valued based on our current construction milestone payment valuation methodology.

A chronology of the information exchange with WEC regarding subcontractors and the subcontractor carve-out is provided below.

On 18 October 2016 WEC provided a presentation on its proposed methodology to defining the carve-outs and distributing the remaining amount allocable across the construction milestones.

In 26 October 2016 conference call with WEC and the Owner, Secretariat provided its response to WEC's proposed carve-outs and milestone valuation methodology. In a follow-up email to WEC that same day, Secretariat confirmed its observations / concerns regarding the Subcontractor carve-out, as listed below:¹²

"Completion of payment milestones will represent progress on works that in some cases is performed by subcontractors. WEC proposes that in addition to the construction payment milestones, there would be a carve-out whereby subcontractors are paid on an invoice-reimbursable basis. We believe under WEC's approach the potential exists that WEC can be paid for the same work via two mechanisms: payments for completed milestones and payment base on subcontractor invoices. This could result in duplicate payments.

"We are concerned that any payments to WEC based solely on WEC's presentation of evidence of payments to subcontractors would not be tied to demonstrated progress on the associated works.

"We think carve-outs for Procurement and Subcontractors should be segregated and not grouped together as WEC has proposed in its single line item carve-out for Procurement / Subcontracts in the amount of \$1,792,499,016. In any case, we think that any carve-out amounts for these Procurement and Subcontractor items should reflect current planning, i.e., they should be reduced to reflect that payments for some of these items have been made as part

¹² Secretariat (W. Patton) email to WEC (J. Hyde) 26 October 2016, 4:01 p.m.

V.C. Summer Nuclear Station Units 2 and 3
Recommendations for Milestone Payment Structure Carve-outs

Secretariat
3 November 2016

of the interim payments made since WEC developed Procurement and Subcontractor curves on or around May 2016 (see DRB Exhibit OX-48, Harvey Exhibit DTH-06)."

Also on 26 October 2016, WEC provided its 15-page "VCS Project Subcontract Strategy Report" dated October 2016.¹³ That report listed 172 potential subcontractors and scope descriptions. Approximately half of the subcontracts were listed as "TBD" (understood to mean "to be determined"), and for well over half the listed subcontracts the value of the subcontracts is not provided. Secretariat requested on 26 October 2016 that WEC provide information identifying and explaining the scope of the subcontracts for which it intends to seek reimbursement under the Subcontractor carve-out, as well as the estimated timing of such expenditures.

On 27 October 2016, after further review of WEC's Subcontract Strategy Report, Secretariat sent further queries to WEC which are shown below.¹⁴

- The subcontractors listed in WEC's "VCS Project Subcontract Strategy Report" appear to fall into several broad categories as listed below:
 - Quantity / performance as-needed based (i.e., hauling, grading, surveying, grading, blasting)
 - Temporary services (i.e., maintenance of ice house, temporary roads & laydown areas, temporary power maintenance, security services)
 - Installation of permanent works (i.e., cooling towers, insulation, coolant loop piping, siding, roofing, tanks, post weld heat treatment, concrete pumping)
 - QC / testing & commissioning services (i.e., concrete testing, weld testing, electrical distribution commissioning, package systems testing, test & balance)
 - Craft augmentation (i.e., electricians, welding)
- Please provide an explanation of the categories of subcontractors that WEC considers that are eligible to be reimbursed under the Subcontractor carve-out. Specifically, is it WEC's intent that any subcontractors (aside from Fluor) will be billed to the Owner on a "paid invoice" basis under this carve-out until the carve-out is depleted?

WEC responded on 28 October 2016 as follows:¹⁵

"Regarding Subcontracts ..., the Contractor intends to request payment in compliance with the Secretariat/Owner-proposed and DRB-adopted guidance as set out in the DRB order dated September 30, 2016.

"B. Subcontracts – all subcontracts for the purpose of meeting Contractor's obligations under the EPC will be included up to the specified carve out amount (approximately \$785M). (Emphasis added).

¹³ SCANA (S. Wicker) email to Secretariat (W. Patton) 26 October 2016, 3:23 p.m.

¹⁴ Secretariat (W. Patton) email to WEC (J. Hyde) 27 October 2016, 6:44 p.m.

¹⁵ WEC (J. Hyde) email to Secretariat (W. Patton) 28 October 2016, 2:41 p.m.

V.C. Summer Nuclear Station Units 2 and 3
Recommendations for Milestone Payment Structure Carve-outs

Secretariat
3 November 2016

"The Contractor intends to comply with the DRB guidance and request Owner payment "on an invoice basis with prompt payment and no holdback". For both Procurement and Subcontracts, payment will be requested from Owner within 15 calendar days of submission of an invoice triggered by the Contractor's approval of the third party invoice for payment and entry into the Contractor's accounts payable system for processing. The Contractor will not expect Owner payment for invoices which are rejected for payment or not approved for payment by Contractor in accordance with the purchase order or subcontract terms. Please be aware that the Owner has audit rights under the October."

We understand that the response above essentially confirms that in addition to subcontractors installing permanent plant commodities, modules and/or equipment WEC seeks reimbursement for subcontractors performing such services as:

- Craft augmentation (i.e. supplemental forces performing welding and electrical work).
 - Payment for this subcontracted work is clearly duplicative of the direct labor commodity curves on which the construction milestones values are based.
- Temporary services (i.e., maintenance of ice house, temporary roads & laydown areas, temporary power maintenance, security services).
 - Payment for this type of subcontracted work is not related to measurable progress on the job and is inconsistent with the objective of milestone payments that payments should be commensurate with progress.
- QC / testing & commissioning services (i.e., concrete testing, weld testing, electrical distribution commissioning, package systems testing, test & balance)
 - According to WEC's Subcontract Strategy Report, WEC envisions around 76 subcontracts for this type of service, with an estimated value of over \$83M that could be billed on an "invoice basis" for reimbursement under this carve-out.
 - This position is not consistent with WEC's statement that 163 of its 607 construction milestones are related to commissioning and startup and that those milestones and their respective payments more than adequately cover the Owner for startup work and related activities.¹⁶ Thus Owner payment of subcontractor invoices for commissioning and startup would be duplicative.

As described above in the section addressing the Procurement carve-out, WEC provided its updated monthly planned expenditures for Procurement and Subcontractors on 31 October 2016. In that analysis, WEC reported that it expects to spend over \$1.044B on "Subcontracts (Non-Fluor)" from December 2016 until the end of the project. This represents a 33% increase over the \$786M for Subcontracts that WEC had forecast in May 2016. It also apparently reflects no reduction in the carve-out amount for its estimated \$99M in procurement expenditures during the six months from June through November 2016, despite interim payments to the Contractor totaling \$699.5M in that same period.

On 1 November 2016, Secretariat sent WEC queries about its 31 October 2016 Subcontractor monthly planned expenditure information.¹⁷ The key points of inquiry are summarized below:

¹⁶ WEC (J. Hyde) email to Secretariat (W. Patton) 28 October 2016, 2:41 p.m.

¹⁷ Secretariat (W. Patton) email to WEC (J. Hyde) 1 November 2016, 2:52 p.m.

V.C. Summer Nuclear Station Units 2 and 3
Recommendations for Milestone Payment Structure Carve-outs

Secretariat
3 November 2016

- Is WEC increasing its proposed amount for the Subcontractor carve-out from \$786M to \$1.044B?
- Is WEC making no downward adjustment for subcontractor expenditures during June through November 2016?
- Please explain the significant increase (33%) in WEC's estimated cost for subcontracts.
- Please identify the major category or categories of subcontracts associated with the apparent large increase in estimated subcontract cost to complete.

WEC responded to the above queries on 2 November 2016.¹⁸ The main points about the proposed Subcontractor carve-out in WEC's response are summarized below:

- WEC is increasing its proposed amount for the Subcontractor carve-out from \$786M to \$1.044B.
- WEC's May 2016 "*Contractor Cost Commitment Drivers for Construction Payment Milestone Amounts (per October 2015 Amendment)*" is not comparable to WEC's latest forecast. Thus, WEC is not considering any expenditures for subcontractors in the June – November 2016 time frame.
- WEC has applied a G&A mark-up of 5.27% on its forecasted subcontractor invoices.
- WEC substantiation for its requested reimbursement under the Subcontractor carve-out is as described above in the section about the Procurement carve-out: WEC will provide a copy of its AP report and the Owner can identify specific invoices to view.

WEC's statement of its monthly planned expenditures for Subcontractors does not identify the Subcontractors that are included, and does not explain their respective scopes or the estimated values of and timing of each. Absent WEC transparency on the specific subcontractor works for which it intends to seek reimbursement solely on the basis of accounts payable reports (and if requested by the Owner, visual examination of invoices), Secretariat believes there are not adequate safeguards that payments under a subcontractor carve-out correspond to progress on the project.

WEC has also provided information on subcontractor budgeted hours and earned hours but this information appears to be incomplete and inconsistent with WEC's Subcontract Strategy Report and its monthly planned expenditures for Subcontractors, as explained below.

On 27 October 2016, the Owner requested that WEC provide an update and backup to its August 2016 Subcontractor earned hours report (reproduced below) that WEC provided in the September 2016 Project Review Meeting ("PRM").¹⁹

¹⁸ WEC (J. Hyde) email to Secretariat (W. Patton) 2 November 2016, 12:24 p.m.

¹⁹ Owner (B. Best) email to WEC (J. Hyde) 27 October 2016, 1:36 p.m.

V.C. Summer Nuclear Station Units 2 and 3
Recommendations for Milestone Payment Structure Carve-outs

Secretariat
3 November 2016

Direct Subcontract Progress Minutes (DRAFT)				
Subcontractor	Scope of Work	Total Project		
		Progress Base Hours	Earned Hours	%
Cannon-Sline	Specialty Coatings	215,731	112,180	52%
Garney	OWS Water Treatment-Bldg 49A & Intake/Discharge	153,241	148,644	97%
Garney	WWS Discharge & RWS Intake Structures	79,469	63,575	80%
Pike	Transmission Switchyard & Offsite Power (ZBS)	130,387	123,062	94%
Schnabel	Temporary Retaining Wall System Units 2/3	55,483	53,299	96%
Evaptech, Inc.	Cooling Towers	406,986	374,427	92%
Myers & Chapman	Buildings: A-30 Service	53,233	-	0%
Schnabel	CWS Cooling Tower Pillings	24,344	24,344	100%
Superior Industrial Maint. Co.	(WWS) Retention Basin Liner	23,827	14,773	62%
CB&I Services	Shield Building Erection	557,669	55,767	10%
North America Substation Serv.	Transformer Dress-Out Services	9,767	4,395	45%
Superior Air Handling	HVAC Duct - SP	211,607	4,444	2.1%
C.A. Murren	HDPE Pipe Installation	57,979	34,787	60%
A.H. Beck Foundation Co., Inc.	Drilled Piers	8,041	8,041	100%
Closed Subcontracts	Closed Subcontracts - Thru March 2015	301,311	301,311	100%
Closed Subcontracts	Closed Subcontracts - After March 2015	9,898	9,898	100%
Unawarded Subcontracts	Unawarded Subcontracts	1,918,822	1,780	
Total		4,217,795	1,334,726	31.6%

WEC responded on 27 October 2016 that it did not have a similar report for September 2016.²⁰ It further explained that the above report was a sample report limited to Fluor's subcontracts but that WEC would provide support for the 754,000 Subcontract hours reported to have been earned in September 2016.²¹

WEC supplemented its response on 28 October 2016, providing a listing of three of its own subcontractors including the total hours earned for each.²²

Secretariat combined the information on Fluor subcontractors from WEC's August 2016 Subcontractor earned hours report with WEC's subcontractor earned hours information into the table below. In the 2nd column of the table we also attempted to cross-reference these named subcontractors with WEC's Subcontract Strategy Report.

²⁰ WEC (J. Hyde) email to Owner (B. Best) 27 October 2016, 6:02 p.m.

²¹ Oct-16 PRM Presentation_Final.pdf, slide 38

²² WEC (J. Hyde) email to Owner (B. Best) 27 October 2016, 2:40 p.m.

V.C. Summer Nuclear Station Units 2 and 3
Recommendations for Milestone Payment Structure Carve-outs

Secretariat
3 November 2016

Subcontractor	VCS Strategy Report Item #	Scope of Work	Progress Base Hours	Earned Hours	Balance to Earn	Percent Earned
Fluor Subcontracts (August 2016 information presented in September 2016 PRM)						
Cannon-Sline	none	Specialty Coatings	215,731	112,180	103,551	52%
Garney	8	OWS Water Treatment-Bldg 49A & Intake/ Discharge (listed in Strategy Report as WECTEC Sub)	153,241	148,644	4,597	97%
Garney	13	WWS Discharge & RWS Intake Structures (listed in Strategy Report as WECTEC Sub)	79,469	63,575	15,894	80%
Pike	3	Transmission Switchyard & Offsite Power (ZBS) (listed in Strategy Report as WECTEC Sub)	130,387	123,062	7,325	94%
Schnabel	none	Temporary Retaining Wall System Units 2/3	55,483	53,299	2,184	96%
Evaptech, Inc.	10	Cooling Towers (listed in Strategy Report as WECTEC Sub)	406,986	374,427	32,559	92%
Myers & Chapman	50?	Buildings: A-30 Service	53,233	0	53,233	0%
Schnabel	none	CWS Cooling Tower Pillings	24,344	24,344	0	100%
Superior Industrial Maint. Co.	28	(WWS) Retention Basin Liner	23,827	14,773	9,054	62%
CB&I Services	29	Shield Building Erection (listed in Strategy Report as WECTEC Sub)	557,669	55,767	501,902	10%
North America Substation Serv.	34	Transformer Dress-Out Services (listed in Strategy Report as WECTEC Sub)	9,767	4,395	5,372	45%
Superior Air Handling	37	HVAC Duct - SP (listed in Strategy Report as WECTEC Sub)	211,607	4,444	207,163	2%
C.A. Murren	44	HDPE Pipe Installation	57,979	34,787	23,192	60%
A.H. Beck Foundation Co., Inc.	none	Drilled Piers	8,041	8,041	0	100%
Closed Subcontracts		Closed Subcontracts - Thru March 2015	301,311	301,311	0	100%
Closed Subcontracts		Closed Subcontracts - After March 2015	9,898	9,898	0	100%
Unawarded Subcontracts		Unawarded Subcontracts	1,918,822	1,780	1,917,042	0%
		Fluor Subtotal	4,217,795	1,334,727	2,883,068	31.6%
Westinghouse Managed Subcontracts (754k earned hours reported in September 2016: per October PRM at Slide 38)						
CES - Carolina Energy Solutions	24? 73?	(SCOPE OF WORK NOT PROVIDED) Reactor Coolant Loop Piping? Machining Services?	27,288	18,192	9,096	66.67%
CB&I Services	63A? 63B? 63C? 76?	(SCOPE OF WORK NOT PROVIDED) Module Fit-up and Welding? Temp attachments to Containment vessels? Work on OWS Tanks? Tank Inspections?	852,159	714,282	137,877	83.82%
Transco		(SCOPE OF WORK NOT PROVIDED)	49,306	21,647	27,659	43.90%
		Westinghouse Subtotal	928,753	754,121	174,632	81.20%
		Fluor & Westinghouse Total	5,146,548	2,088,848	3,057,700	40.6%

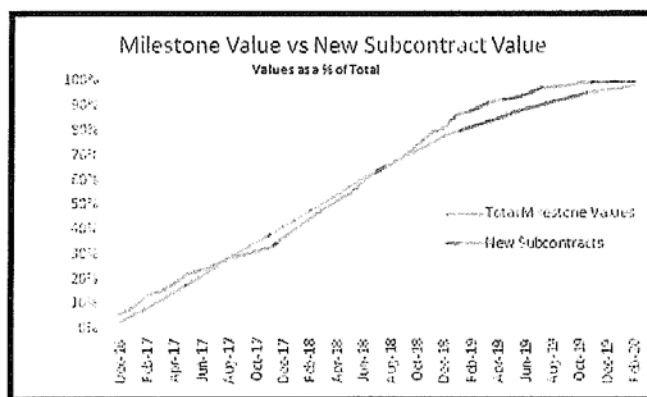
The most important observations of the above table are as follows:

V.C. Summer Nuclear Station Units 2 and 3
Recommendations for Milestone Payment Structure Carve-outs

Secretariat
3 November 2016

- WEC's Subcontractor earned hours tabulation appears incomplete. The 17 total subcontractors for which WEC provided earned hours represent only a small subset of the 172 subcontract line items in WEC's Subcontract Strategy Report.
- WEC has identified a budget of over 5.1 million hours to be performed by subcontractors. By way of comparison the direct hire estimate in the September 2016 WEC scorecard is about 17.5 million hours. Thus subcontractor hours represent about 23% of the total 22.6 million hours.
- Of the 5.1 million estimated subcontractor hours, over 3 million hours are yet to be earned. Again by way of comparison WEC's estimate of the yet-to-be earned ("to Go") direct hire labor in its September 2016 scorecard is about 13.3 million hours. Thus subcontractor hours represent about 19% of the total 16.3 million hours.
- Of the approximately 3 million yet-to-be earned subcontractor hours, over 62% (1.9 million) are for an unspecified number of "unawarded contracts".
- WEC did not identify the scopes of work for the three WEC subcontractors identified as having earned around 754,000 hours in September 2016. Based on WEC's Subcontract Strategy Report Secretariat identified multiple possible scopes for two of the three WEC subs (CES and CB&I), but the 3rd subcontractor (Transco) was not listed in that report.
- WEC's Subcontractor earned hours tabulation is inconsistent with its Subcontract Strategy Report. Of the 14 subcontractors WEC identified as Fluor subs in the earned hours tabulation, 7 are listed in the Subcontract Strategy Report as WECTEC subs and 4 others were not listed.

WEC's planned expenditure profile for Subcontractors is very similar to its construction milestone earnings profile, suggesting that earnings on milestones would be sufficient to fund subcontractor expenditures. The figure below compares the planned milestone earnings curve (based on Secretariat's alternative milestone valuation methodology and shown in blue) to the planned expenditure for subcontractors (shown in orange). For comparison, the two curves are expressed as percentage over time.



V.C. Summer Nuclear Station Units 2 and 3
Recommendations for Milestone Payment Structure Carve-outs

Secretariat
3 November 2016

This figure shows that, assuming WEC completes construction milestones as planned, its percentage of earnings via milestones would be consistent with its percentage of planned subcontractor expenditures and thus the underlying objective of maintaining reasonable cash neutrality would be maintained without a separate carve-out for subcontractors.

As explained above in the Procurement carve-out section, late on 2 November 2016 WEC transmitted a new proposed milestone payment approach wherein it combined Units 2 & 3 milestones for the purposes of milestone valuation and explained that "Allocations are based on total project percent complete". On 3 November 2016, WEC supplemented its new approach with a spreadsheet breakdown of "the elements of the Total Percent Complete calculation used by the Contractor in developing the construction milestone values."

Our review of this information is ongoing and we reserve the right to amend our position after a complete review of this new WEC approach. However we have some initial observations on WEC's new approach as it relates to a Subcontractor carve-out as listed below:

- WEC's 2 November 2016 approach values the milestones based on the forecasted monthly "Total Project %". Unlike WEC's 19 October 2016 approach wherein the forecasted progress curve for milestone valuation was based on direct labor to install commodities, WEC's new proposed progress curve and the milestone values derived therefrom include Subcontractors by definition. Thus a Subcontractor carve-out is duplicative and no longer appropriate.
- We have concerns on the reliability of the data supplied, as described in the example below:
 - Under WEC's 2 November 2016 approach, in November 2017 (when WEC plans to complete Unit 2 IE) WEC states that the "Total Project" will be 79.21% complete.
 - In its 3 November 2016 breakdown of the elements of the total project, WEC reports that the "Construction" element will be 60% complete in November 2017.
 - However, in WEC's labor curve spreadsheet that was the basis for its 19 October 2019 commodity / labor curves, WEC reports that at the time of Unit 2 IE, Unit 2 will be 46.2% complete, Unit 3 will be 25.0% complete and the Total Project will be only 41.2% complete.²³
 - The apparent significant inconsistencies between the different data sets that WEC has used in its different proposed milestone payment approaches should be explained in order to validate the reliability of WEC's forecasts for use in establishing curves and valuing the construction payment milestones.

Subcontractors: Conclusion

Based on the information provided, Secretariat recommends no carve-out for Subcontracts. Our recommendation is based on the following:

²³ Copy of 2016-01-26 VCS Early-Late Level 2 Resource Spread R10 - with subs.xlsx

V.C. Summer Nuclear Station Units 2 and 3
Recommendations for Milestone Payment Structure Carve-outs

Secretariat
3 November 2016

- Under WEC's approach the potential exists that WEC can be paid for the same work via two mechanisms: payments for completed milestones and payment base on subcontractor invoices. This could result in duplicate payments.
- Payments to WEC based solely on WEC's presentation of evidence of payments to subcontractors would not be tied to demonstrated progress on the associated works.
- WEC's summary level monthly planned expenditures for Subcontractors does not define the Subcontractors that are included, their respective scopes or the estimated monthly values and timing of each.
- WEC's Subcontract Strategy Report shows that many subcontracts are at present unawarded and many values are not known. Yet WEC proposes that its summary level monthly planned expenditures be accepted as-is.
- WEC's Subcontractor earned hours information for 17 subcontractors appears to be a small subset of the 172 potential subcontractors listed in the Subcontract Strategy Report. Scope information for the 17 subcontractors is incomplete, and some of the 17 subcontractors are not listed in the Subcontract Strategy Report.
- In any case, the earnings / expenditure profile comparison figure described above demonstrates that milestone payment under WEC's planned completion of construction milestones should facilitate payment to subcontractors while maintaining reasonable cash neutrality.
- Absent WEC transparency on the specific subcontractor works for which it intends to seek reimbursement solely on the basis of Subcontractor invoices summarized in accounts payable reports, Secretariat believes there are not adequate safeguards that payments under a subcontractor carve-out correspond to progress on the project.

If, despite the numerous shortcomings with WEC's approach to the subcontractor carve-out described above and despite WEC's lack of transparency concerning its subcontracting plans, the DRB concludes that some Subcontractor carve-out should be retained, Secretariat believes that the not-to-exceed amount for this item should be segregated from the carve-out for Material & Module Procurement. Moreover, the amount for subcontractors should be reduced to reflect a December 2016 implementation of the milestone payment plan. Using WEC's May 2016 data (see DRB Exhibit OX-48, Harvey Exhibit DTH-06) to identify estimated costs assigned to "Subcontractors" by month, WEC forecasted expending \$99 million from June through November 2016, and as of 1 December 2016 estimated \$687 million of the original \$786 million carve-out remains.

If the DRB concludes that payments should be made to WEC under a Subcontractor carve-out, Secretariat recommends that WEC's billings and the Owner's payments should follow these principles:

V.C. Summer Nuclear Station Units 2 and 3
Recommendations for Milestone Payment Structure Carve-outs

Secretariat
3 November 2016

1. WEC should be permitted to submit invoicing only for subcontractors installing permanent plant commodities, modules and/or equipment.
2. Prior to implementation of the milestone payment system, WEC should identify specific subcontracted scopes of work for which it intends to seek reimbursement under the Subcontractor carve-out (within the limitations described in item 1) and should provide payment terms and a performance schedule for each subcontractor.
3. WEC should also identify the payment plan for each contractor based on an earned value/pay for progress.
4. As a condition of Owner reimbursement WEC should provide sufficient invoicing detail to substantiate earned value/progress payments and facilitate confirmation by the Owner.

ITAACs:

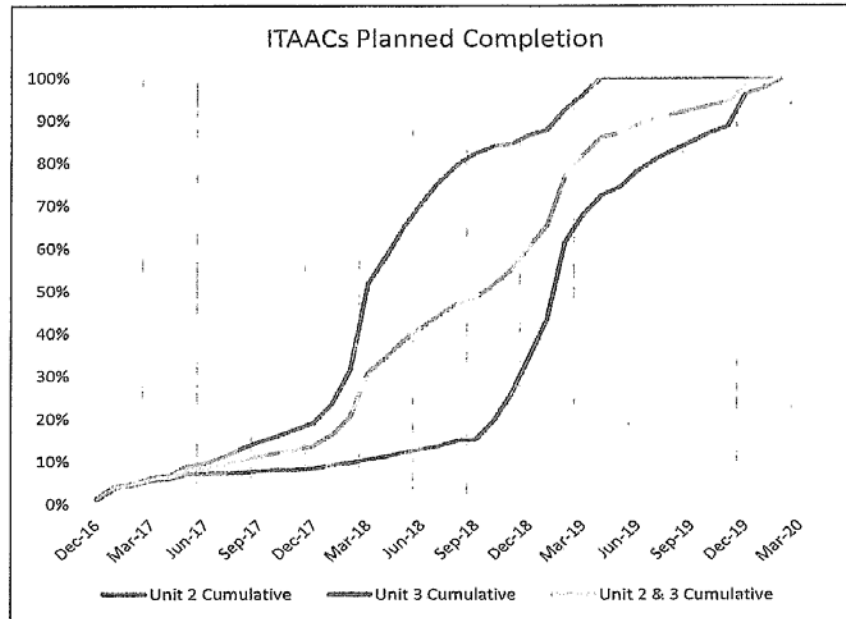
Secretariat's position with regard to ITAACs is unchanged since the initial DRB hearing. During the negotiations on the milestone payment system the parties reached an agreement on an aggregate value for ITAACs at \$300 million, which equated to \$186,451 per ITAAC based on the number remaining in June 2016. We understand there should be about 1,544 ITAACs remaining as of December 2016 resulting in a recommended carve-out of \$287,880,344. The actual quantity of remaining ITAACs as of 1 December 2016 will determine the final carve-out amount.

Secretariat recommends that the individual ITAAC milestones be considered complete when the ITAAC submission is presented to the Owner, with the caveat that if an ITAAC submission is found to be deficient such that it cannot be sent to the NRC, then the payment for that ITAAC should be deferred until a corrected ITAAC that can be sent to the NRC is re-submitted to the Owner.

In the DRB's order, the DRB characterized ITAACs as "*milestone payments that Secretariat recommended be deferred or made near or at Project completion*". That is incorrect. The ITAACs milestones are in fact scheduled to be earned over the course of the project, as shown on the chart below.

V.C. Summer Nuclear Station Units 2 and 3
Recommendations for Milestone Payment Structure Carve-outs

Secretariat
3 November 2016



The chart shows that Unit 2 ITAACs are scheduled to be 50% complete by March 2018 and 85% complete by December 2018. Collectively ITAACs for both units should be at 80% earned by March 2019, a year before Unit 3 completion.

In any case, ITAACs represent important deliverables that are essential to moving the regulatory approval process forward and Secretariat believes it is appropriate to set aside adequate funds which are earned associated with ITAACs progress. We note that on 2 November 2016 WEC transmitted a new proposed milestone payment approach wherein WEC proposes an ITAACs carve-out amount of \$9.5 million, which is about 3.2% of the \$300 million that the parties had negotiated earlier this year, and averages about \$6,150 per ITAAC.

Start-up Assistance:

We believe that under WEC's approach, inadequate funding is assigned to cover WEC's start-up assistance activities during the 6 months following fuel load on each unit. WEC allocates less than \$7.2 million per unit to be earned between fuel load and substantial completion. We understand that at one point the parties had negotiated an agreed value of \$217 million for the start-up assistance.

V.C. Summer Nuclear Station Units 2 and 3
Recommendations for Milestone Payment Structure Carve-outs

Secretariat
3 November 2016

Secretariat requested information about WEC's start-up resources and costs and planned utilization of subcontractors for this work.²⁴ WEC declined to provide this information, citing its belief that the start-up is covered in the existing construction milestones plus an apparent ongoing commercial dispute regarding Owner participation in start-up activities.²⁵

Based on WEC-supplied information (see DRB Exhibit OX-48, Harvey Exhibit DTH-06), we have identified \$28 million assigned to start-up activities after the February 2020 Unit 3 fuel load, and recommend that an equal amount should be applied also to the Unit 2 start-up assistance (\$56 million total). It should be noted that the recommended \$56 million carve-out represents a significant reduction of the \$217 million carve-out for this item that was recommended in the DRB hearing.

Secretariat recommends that the \$28 million for each unit should be allocated evenly over the 6 month startup period for each unit.

Substantial Completion:

Article 8.2 of the EPC Agreement requires that upon Substantial Completion of a Unit, the Contractor shall be due two percent of the Firm Price and Fixed Price work for the project. The Owner has advised that the total revised Firm and Fixed Price after election of the Fixed Price Option is \$9,089,390,167, of which two percent would total \$181,787,803. We understand that in previous amendments to the Contract that increased the Firm Price and Fixed Price amounts, the amounts for the Substantial Completion milestones were increased.²⁶

In addition to the fact that the Contract contemplates that 2% of the Firm Price and Fixed Price work for the project be paid on Substantial Completion, the concept of retainage is common in construction. For example the Federal Acquisition Regulations (FAR) offer the following which may be considered for guidance:

"52.232-5 Payments under Fixed-Price Construction Contracts.

"(e) Retainage. If the Contracting Officer finds that satisfactory progress was achieved during any period for which a progress payment is to be made, the Contracting Officer shall authorize payment to be made in full. However, if satisfactory progress has not been made, the Contracting Officer may retain a maximum of 10 percent of the amount of the payment until satisfactory progress is achieved. When the work is substantially complete, the Contracting Officer may retain from previously withheld funds and future progress payments that amount the Contracting Officer considers adequate for protection of the Government and shall release to the Contractor all the remaining withheld funds. Also, on completion and acceptance of each separate building, public work, or other division of the contract, for which the price is stated

²⁴ Secretariat (W. Patton) email to WEC (J. Hyde) 28 October 2016, 11:02 a.m.

²⁵ WEC (J. Hyde) email to Secretariat (W. Patton) 28 October 2016, 2:41 p.m. responding to the above cited email

²⁶ DRB Exhibit OX 09 11-11-14 Executed Amendment 2

V.C. Summer Nuclear Station Units 2 and 3
Recommendations for Milestone Payment Structure Carve-outs

Secretariat
3 November 2016

separately in the contract, payment shall be made for the completed work without retention of a percentage."²⁷ (Emphasis added).

Furthermore, the Owner currently has a justified concern that WEC's actual progress during the last two months was much less than the planned progress and that, consequently, WEC was overpaid through the recent interim payments.

Substantial Completion: Conclusion

At the prior DRB hearing, Secretariat had recommended a Substantial Completion carve-out that had been rounded to \$181 million. We recommended that this amount be split evenly between the units and paid upon substantial completion, less a to-be determined amount retained until completion of punch list items. Our recommendation for this carve-out is unchanged.

F.1.1 Milestones:

Secretariat recommends a carve-out for the unpaid F.1.1 milestones per the EPC Contract, and also recognize that some of the F.1.1 milestones are associated with Substantial Completion. Accordingly we recommend removal of the Substantial Completion portion of the F.1.1 milestones from the carve-out since it is superseded by the Substantial Completion carve-out described above. WEC's position regarding escalation of the remaining F.1.1 milestones to their estimated completion date is acknowledged and considered reasonable. The Owner has reported to Secretariat that there are 24 remaining F.1.1 milestones that are not related to Substantial Completion and that the current estimate for these 24 milestones is \$52,863,865. Based on the current schedule for these milestones, they should be 75% earned by the end of April 2017 and 100% earned by the end of August 2017.

Summary:

Based on the explanations above, the table below summarizes Secretariat's position on the carve-outs and shows the remaining amount of \$2,969,290,133 that should be allocated to the construction payment milestones using the methodology explained in our conference on 26 October 2016 and subsequently provided to WEC in Excel format.

Fixed Contract Value	6,082,000,000
Jul-15 to Dec-15 actual payments	-349,465,658
October 2015 Amendment Exhibit A	-250,000,000
Interim Payments from Owner	-1,199,500,000
Procurement (\$1,077B from May 2016 WEC reduced by WEC's \$341M planned expenditures from June through November)	-736,000,000
Subcontractors	0
F.1.1 Milestones	-52,863,865

²⁷ https://www.acquisition.gov/far/current/html/52_232.html

V.C. Summer Nuclear Station Units 2 and 3
Recommendations for Milestone Payment Structure Carve-outs

⌘ Secretariat
3 November 2016

Fixed Contract Value	6,082,000,000
(non-Substantial Completion portion of <\$137,378,130>)	
Substantial Completion (based on 2% of Firm and Fixed Price)	-181,000,000
6 months Start Up Assistance - Post Fuel Load	-56,000,000
ITAACs	-287,880,344
Allocable to Schedule Completion Milestones	2,969,290,133



Media Contact:
Rhonda O'Banion
(800) 562-9308

Analyst Contacts:
Bryant Potter
(803) 217-6916

Susan Wright
(803) 217-4436

Public Service Commission of South Carolina Approves Settlement Agreement Concerning South Carolina Electric & Gas Company's Petition to Update Construction and Capital Cost Schedules and to Elect the Fixed Price Option for New Nuclear Units

Cayce, SC, November 9, 2016... The Public Service Commission of South Carolina (SCPSC) today voted to approve a settlement agreement entered into by South Carolina Electric & Gas Company (SCE&G), principal subsidiary of SCANA Corporation (NYSE: SCG), the South Carolina Office of Regulatory Staff, the Electric Cooperatives of South Carolina, Central Electric Cooperative, Inc., the South Carolina Energy Users Committee, and Frank Knapp, Jr. concerning SCE&G's petition to update the construction and capital cost schedules for the two new nuclear units being constructed in Jenkinsville, South Carolina. The SCPSC also approved SCE&G's election of the Fixed Price Option provided for in the October 2015 Amendment to SCE&G's Engineering, Procurement, and Construction Agreement with Westinghouse Electric Company.

The approved construction schedule designates guaranteed substantial completion dates of August 2019 and August 2020 for Units 2 and 3, respectively. The approved capital cost schedule includes incremental capital costs that total \$831 million (SCE&G's 55% portion in 2007 dollars). The total project capital cost is now estimated at approximately \$6.8 billion (SCE&G's 55% portion in 2007 dollars) or \$7.7 billion including escalation and allowance for funds used during construction (SCE&G's 55% portion in future dollars). Also, the allowed Return on Equity (ROE) for the new nuclear project will be revised to 10.25% and will be applied prospectively for the purpose of calculating revised rates sought by SCE&G under the Base Load Review Act on and after January 1, 2017, until such time as the new nuclear units are completed. Additionally, SCE&G will not file future requests to amend capital cost schedules prior to January 28, 2019.

PROFILE

SCE&G is a regulated public utility engaged in the generation, transmission, distribution and sale of electricity to approximately 707,000 customers in South Carolina. The company also provides natural gas service to approximately 353,000 customers throughout the state. More information about SCE&G is available at www.sceg.com.

SCANA Corporation, headquartered in Cayce, S.C., is an energy-based holding company principally engaged, through subsidiaries, in electric and natural gas utility operations and other energy-related businesses. The Company serves approximately 707,000 electric customers in South Carolina and approximately 1.3 million natural gas customers in South Carolina, North Carolina and Georgia. Information about SCANA and its businesses is available on the Company's website at www.scana.com.

SAFE HARBOR STATEMENT

Statements included in this press release which are not statements of historical fact are intended to be, and are hereby identified as, "forward-looking statements" for purposes of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended. Forward-looking statements include, but are not limited to, statements concerning key earnings drivers, customer growth, environmental regulations and expenditures, leverage ratio, projections for pension fund contributions, financing activities, access to sources of capital, impacts of the adoption of new accounting rules and estimated construction and other expenditures. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "should," "expects," "forecasts," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential" or "continue" or the negative of these terms or other similar terminology. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties, and that actual results could differ materially from those indicated by such forward-looking statements. Important factors that could cause actual results to differ materially from those indicated by such forward-looking statements include, but are not limited to, the following: (1) the information is of a preliminary nature and may be subject to further and/or continuing review and adjustment; (2) legislative and regulatory actions, particularly changes in electric and gas services, rate regulation, regulations governing electric grid reliability and pipeline integrity, environmental regulations, and actions affecting the construction of new nuclear units; (3) current and future litigation; (4) changes in the economy, especially in areas served by subsidiaries of SCANA; (5) the impact of competition from other energy suppliers, including competition from alternate fuels in industrial markets; (6) the impact of conservation and demand side management efforts and/or technological advances on customer usage; (7) the loss of sales to distributed generation, such as solar photovoltaic systems; (8) growth opportunities for SCANA's regulated and other subsidiaries; (9) the results of short- and long-term financing efforts, including prospects for obtaining access to capital markets and other sources of liquidity; (10) the effects of weather, especially in areas where the generation and transmission facilities of SCANA and its subsidiaries (the Company) are located and in areas served by SCANA's subsidiaries; (11) changes in SCANA's or its subsidiaries' accounting rules and accounting policies; (12) payment and performance by counterparties and customers as contracted and when due; (13) the results of efforts to license, site, construct and finance facilities for electric generation and transmission, including nuclear generating facilities; (14) the results of efforts to operate the Company's electric and gas systems and assets in accordance with acceptable performance standards, including the impact of additional distributed generation and nuclear generation; (15) maintaining creditworthy joint owners for SCE&G's new nuclear generation project; (16) the ability of suppliers, both domestic and international, to timely provide the labor, secure processes, components, parts, tools, equipment and other supplies needed, at agreed upon quality and prices, for our construction program, operations and maintenance; (17) the results of efforts to ensure the physical and cyber security of key assets and processes; (18) the availability of fuels such as coal, natural gas and enriched uranium used to produce electricity; the availability of purchased power and natural gas for distribution; the level and volatility of future market prices for such fuels and purchased power; and the ability to recover the costs for such fuels and purchased power; (19) the availability of skilled, licensed, and experienced human resources to properly manage, operate, and grow the Company's businesses; (20) labor disputes; (21) performance of SCANA's pension plan assets; (22) changes in tax laws and realization of tax benefits and credits, including production tax credits for new nuclear units; (23) inflation or deflation; (24) compliance with regulations; (25) natural disasters and man-made mishaps that directly affect our operations or the regulations governing them; and (26) the other risks and uncertainties described from time to time in the reports filed by SCANA or SCE&G with the SEC.

SCANA and SCE&G disclaim any obligation to update any forward-looking statements.



Media Contact:
Rhonda O'Banion
(800) 562-9308

Analyst Contacts:
Bryant Potter
(803) 217-6916

Susan Wright
(803) 217-4436

**Public Service Commission of South Carolina Approves Settlement Agreement
Concerning South Carolina Electric & Gas Company's Petition to Update
Construction and Capital Cost Schedules and to Elect the Fixed Price Option for
New Nuclear Units**

Cayce, SC, November 9, 2016... The Public Service Commission of South Carolina (SCPSC) today voted to approve a settlement agreement entered into by South Carolina Electric & Gas Company (SCE&G), principal subsidiary of SCANA Corporation (NYSE: SCG), the South Carolina Office of Regulatory Staff, the Electric Cooperatives of South Carolina, Central Electric Cooperative, Inc., the South Carolina Energy Users Committee, and Frank Knapp, Jr. concerning SCE&G's petition to update the construction and capital cost schedules for the two new nuclear units being constructed in Jenkinsville, South Carolina. The SCPSC also approved SCE&G's election of the Fixed Price Option provided for in the October 2015 Amendment to SCE&G's Engineering, Procurement, and Construction Agreement with Westinghouse Electric Company.

The approved construction schedule designates guaranteed substantial completion dates of August 2019 and August 2020 for Units 2 and 3, respectively. The approved capital cost schedule includes incremental capital costs that total \$831 million (SCE&G's 55% portion in 2007 dollars). The total project capital cost is now estimated at approximately \$6.8 billion (SCE&G's 55% portion in 2007 dollars) or \$7.7 billion including escalation and allowance for funds used during construction (SCE&G's 55% portion in future dollars). Also, the allowed Return on Equity (ROE) for the new nuclear project will be revised to 10.25% and will be applied prospectively for the purpose of calculating revised rates sought by SCE&G under the Base Load Review Act on and after January 1, 2017, until such time as the new nuclear units are completed. Additionally, SCE&G will not file future requests to amend capital cost schedules prior to January 28, 2019.

PROFILE

SCE&G is a regulated public utility engaged in the generation, transmission, distribution and sale of electricity to approximately 707,000 customers in South Carolina. The company also provides natural gas service to approximately 353,000 customers throughout the state. More information about SCE&G is available at www.sceg.com.

SCANA Corporation, headquartered in Cayce, S.C., is an energy-based holding company principally engaged, through subsidiaries, in electric and natural gas utility operations and other energy-related businesses. The Company serves approximately 707,000 electric customers in South Carolina and approximately 1.3 million natural gas customers in South Carolina, North Carolina and Georgia. Information about SCANA and its businesses is available on the Company's website at www.scana.com.

SAFE HARBOR STATEMENT

Statements included in this press release which are not statements of historical fact are intended to be, and are hereby identified as, "forward-looking statements" for purposes of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended. Forward-looking statements include, but are not limited to, statements concerning key earnings drivers, customer growth, environmental regulations and expenditures, leverage ratio, projections for pension fund contributions, financing activities, access to sources of capital, impacts of the adoption of new accounting rules and estimated construction and other expenditures. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "should," "expects," "forecasts," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential" or "continue" or the negative of these terms or other similar terminology. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties, and that actual results could differ materially from those indicated by such forward-looking statements. Important factors that could cause actual results to differ materially from those indicated by such forward-looking statements include, but are not limited to, the following: (1) the information is of a preliminary nature and may be subject to further and/or continuing review and adjustment; (2) legislative and regulatory actions, particularly changes in electric and gas services, rate regulation, regulations governing electric grid reliability and pipeline integrity, environmental regulations, and actions affecting the construction of new nuclear units; (3) current and future litigation; (4) changes in the economy, especially in areas served by subsidiaries of SCANA; (5) the impact of competition from other energy suppliers, including competition from alternate fuels in industrial markets; (6) the impact of conservation and demand side management efforts and/or technological advances on customer usage; (7) the loss of sales to distributed generation, such as solar photovoltaic systems; (8) growth opportunities for SCANA's regulated and other subsidiaries; (9) the results of short- and long-term financing efforts, including prospects for obtaining access to capital markets and other sources of liquidity; (10) the effects of weather, especially in areas where the generation and transmission facilities of SCANA and its subsidiaries (the Company) are located and in areas served by SCANA's subsidiaries; (11) changes in SCANA's or its subsidiaries' accounting rules and accounting policies; (12) payment and performance by counterparties and customers as contracted and when due; (13) the results of efforts to license, site, construct and finance facilities for electric generation and transmission, including nuclear generating facilities; (14) the results of efforts to operate the Company's electric and gas systems and assets in accordance with acceptable performance standards, including the impact of additional distributed generation and nuclear generation; (15) maintaining creditworthy joint owners for SCE&G's new nuclear generation project; (16) the ability of suppliers, both domestic and international, to timely provide the labor, secure processes, components, parts, tools, equipment and other supplies needed, at agreed upon quality and prices, for our construction program, operations and maintenance; (17) the results of efforts to ensure the physical and cyber security of key assets and processes; (18) the availability of fuels such as coal, natural gas and enriched uranium used to produce electricity; the availability of purchased power and natural gas for distribution; the level and volatility of future market prices for such fuels and purchased power; and the ability to recover the costs for such fuels and purchased power; (19) the availability of skilled, licensed, and experienced human resources to properly manage, operate, and grow the Company's businesses; (20) labor disputes; (21) performance of SCANA's pension plan assets; (22) changes in tax laws and realization of tax benefits and credits, including production tax credits for new nuclear units; (23) inflation or deflation; (24) compliance with regulations; (25) natural disasters and man-made mishaps that directly affect our operations or the regulations governing them; and (26) the other risks and uncertainties described from time to time in the reports filed by SCANA or SCE&G with the SEC.

SCANA and SCE&G disclaim any obligation to update any forward-looking statements.

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2016-223-E - ORDER NO. 2016-794
NOVEMBER 28, 2016

IN RE:	Petition of South Carolina Electric & Gas)	ORDER APPROVING
	Company for Updates and Revisions to)	SCE&G'S REQUEST FOR
	Schedules Related to the Construction of a)	MODIFICATION OF
	Nuclear Base Load Generation Facility at)	SCHEDULES
	Jenkinsville, South Carolina)	

I. INTRODUCTION

This matter comes before the Public Service Commission of South Carolina (the “Commission”) on the Petition of South Carolina Electric & Gas Company (“SCE&G” or the “Company”) for an order approving an updated capital cost schedule and an updated construction schedule for the construction of two 1,117 net megawatt (“MW”) nuclear power units to be located at the V.C. Summer Nuclear Station near Jenkinsville, South Carolina (the “Project” or “Units”). SCE&G filed the Petition in this docket (the “Petition”) on May 26, 2016, pursuant to S.C. Code Ann. § 58-33-270(E) (2015). Under that provision of the Base Load Review Act (the “BLRA”), a utility “may petition the commission...for an order modifying any of the schedules, estimates, findings, class allocation factors, rate designs, or conditions that form part of any base load review order.” S.C. Code Ann. § 58-33-270(E). Further, “[t]he commission shall grant the relief requested if, after a hearing, the commission finds...that the evidence of record justifies a finding that the changes are not the result of imprudence on the part of the utility.” *Id.*

The Project has been the subject of a number of previous proceedings before this Commission. In Order No. 2009-104(A), dated March 2, 2009, the Commission approved an initial capital cost schedule and construction schedule for the Units. As approved in that order, the capital cost for the Units was \$4.5 billion in 2007 dollars.¹ With forecasted escalation, this resulted in an estimated cost for the Units at completion of \$6.3 billion in future dollars. The construction schedule approved in Order No. 2009-104(A) anticipated that Unit 2 would be completed by April 1, 2016, and the project as a whole would be completed by January 1, 2019. In 2009 SCE&G filed its first petition under S.C. Code Ann. § 58-33-270(E) (an “update proceeding”) seeking an update to Project cost schedules. In Order No. 2010-12, dated January 21, 2010, the Commission approved the updated schedules. Subsequent update proceedings were filed in 2010 (approved by Order No. 2011-345) and in 2012 (approved in Order No. 2012-884).

Prior to this proceeding, the last Petition filed by SCE&G pursuant to S.C. Code Ann. § 58-33-270(E) was filed on March 12, 2015. In that Petition, SCE&G sought an order approving an updated construction schedule and updated capital cost schedule for the Units. In Order No. 2015-661, dated September 10, 2015, the Commission approved an updated construction schedule with new substantial completion dates for Units 2 and 3 of

¹ Unless otherwise noted, all dollar amounts used in this Order reflect the cost associated with SCE&G’s 55% share of the ownership of the Units. Unless otherwise noted, amounts other than those associated with the October 2015 Amendment to the Engineering, Procurement and Construction Agreement (or “EPC Contract”) and the option it contains are expressed in 2007 dollars. For those two items, amounts are expressed in future (*i.e.*, escalated) dollars.

June 19, 2019, and June 16, 2020, respectively, and an updated capital cost estimate of \$5.2 billion in 2007 dollars.

II. UPDATE PETITION IN THIS DOCKET

The updated Petition under consideration in this docket has been modified from what was proposed in SCE&G's Petition by a settlement ("Settlement Agreement") entered into by a number of parties (and discussed below), and entered into the record as Hearing Exhibit 1. The updated construction schedule under review here was Exhibit 1 to the Settlement Agreement. This updated schedule revises the substantial completion date of Unit 2 to August 31, 2019, and of Unit 3 to August 31, 2020, a delay of approximately two and one-half months for each Unit compared to the dates established in Order No. 2015-661.

The updates to the cost schedule which result from the settlement are set out in Exhibit 2 to the Settlement Agreement. This schedule increases the anticipated cost of the Units by \$831.3 million in future dollars to \$7.658 billion or by approximately 12.2% compared to the forecast of \$6.8 billion reflected in Order No. 2015-661. These increases in anticipated costs are related to:

- (a) Adjustments to the EPC Contract price associated with the October 27, 2015, Amendment to the EPC Contract (the "Amendment");
- (b) The additional costs associated with the exercise by SCE&G and Santee Cooper of the option to transfer to the Fixed Cost categories all but a limited set of costs to be paid under the EPC Contract after June 30, 2015 (the "Option");

- (c) Eleven individual change orders under the EPC Contract which involve such things as site physical security upgrades and security system upgrades, the construction of additional shop and office space for support personnel who will operate the Units, and additional personnel to train operations and maintenance personnel;
- (d) Increases in Owner's Costs principally associated with the extension of the completion dates for the Units and additional project oversight resources to ensure the safety and quality of the work, and
- (e) Associated escalation and Allowance for Funds Used during Construction ("AFUDC").

The cost forecast presented in Hearing Exhibit 11 also reflects the reversal of a credit for future liquidated damages payments of \$85.5 million. This credit had been included in the cost projections approved in Order No. 2015-661, but was no longer applicable because of revisions in the Guaranteed Substantial Completion Dates ("GSCDs") of the Units. Chart A below details the elements of the current request as per the Settlement Agreement:

DOCKET NO. 2016-223-E – ORDER NO. 2016-794
NOVEMBER 28, 2016
PAGE 5

Chart A

<u>SUMMARY OF COST ADJUSTMENTS</u>		
<u>(\$000,000)</u>		
EPC Contract Cost		
1	Amendment	137.5
2	Fixed Price option	505.5
3	Liquidated Damages (LDs) (Reverse Credit)	85.5
4	Change Orders	32.6
5	Credit – Service Building Transfer	(5.02)
6	Total EPC Cost Changes	756.1
Owner's Costs		
7	Principally Associated with Amendment and Service Building Transfer	30.0
8	Total Request (EPC and Owner's Costs)	786.1
9	Escalation	3.7
10	AFUDC	41.5
11	Increase in Gross Construction Cost (Current \$)	831.3
Note: Totals may not add due to rounding		

The anticipated cost schedule for the Units as approved in various dockets filed under the BLRA is set forth in Chart B below:

DOCKET NO. 2016-223-E – ORDER NO. 2016-794

NOVEMBER 28, 2016

PAGE 6

Chart B**Summary of BLRA Cost Schedule (billions of \$)**

<u>Forecast Item</u>	<u>Order No.</u> <u>2009-104(A)</u>	<u>Order</u> <u>No. 2010-12</u>	<u>Order</u> <u>No. 2011-345</u>	<u>Order</u> <u>No. 2012-884</u>	<u>Order</u> <u>No. 2015-661</u>	<u>Current</u> <u>Petition</u>
Capital Cost, 2007 Dollars	\$4.535	\$4.535	\$4.270	\$4.548	\$5.247	\$6.805
Escalation	\$1.514	\$2.025	\$1.261	\$0.968	\$1.300	\$0.532
Total Project Cash Flow	\$6.049	\$6.560	\$5.531	\$5.517	\$6.547	\$7.337
AFUDC	\$0.264	\$0.316	\$0.256	\$0.238	\$0.280	\$0.321
Gross Construction Cost (future dollars)	\$6.313	\$6.875	\$5.787	\$5.755	\$6.827	\$7.658
Difference in gross amounts from Order No. 2009- 104(A)	--	\$0.562	(-\$0.526)	(-\$0.558)	\$0.514	\$1.345

Note: Chart B totals may not add due to rounding

III. NOTICE, INTERVENTIONS, AND HEARING

In compliance with S.C. Code Ann. § 58-33-270(E), SCE&G provided timely notice of the Petition in this docket to the South Carolina Office of Regulatory Staff (“ORS”). Pursuant to S.C. Code Ann § 58-4-10 (2015), ORS is automatically a party to this proceeding. By letter dated June 2, 2016, the Commission’s Clerk’s Office instructed the Company to publish by June 17, 2016, a Notice of Filing and Hearing in newspapers of general circulation in the area where SCE&G serves retail electric customers (the “Newspaper Hearing Notices”). The Clerk’s Office also instructed SCE&G to provide proof of newspaper publication by July 8, 2016. On June 20, 2016, the Company timely filed affidavits with the Commission demonstrating that the Newspaper Hearing Notices had been duly published in accordance with the instructions of the Clerk’s Office.

By letter dated September 15, 2016, the Commission’s Clerk’s Office instructed the Company by September 21, 2016, to publish a Notice of Public Night Hearing to be held on Tuesday, October 4, 2016, as a display ad in the local section of the following newspapers: *The State*, *The Aiken Standard*, *The Post and Courier*, and *The Beaufort Gazette/Island Packet* (the “Newspaper Night Hearing Notices”). The Clerk’s Office also instructed SCE&G to provide proof of publication of the Newspaper Night Hearing Notices by September 23, 2016. On September 22, 2016, the Company filed with the Commission affidavits demonstrating that the Newspaper Night Hearing Notices had been duly published in accordance with the instructions of the Clerk’s Office.

Uncontested Petitions to Intervene in this docket were received from Frank Knapp, Jr., Central Electric Power Cooperative, Inc. (“Central Electric”); The Electric

DOCKET NO. 2016-223-E – ORDER NO. 2016-794
NOVEMBER 28, 2016
PAGE 8

Cooperatives of South Carolina, Inc. (“The Cooperatives”); Sandra Wright; Sierra Club; the South Carolina Energy Users Committee (“SCEUC”), South Carolina Coastal Conservation League (“CCL”) and CMC Steel South Carolina. These Petitions were granted by this Commission. However, by Order No. 2016-525, Mr. Joseph Wojcicki was denied intervention on the ground that he is not a customer of SCE&G.

A hearing was held beginning on October 4, 2016, at 10:30 AM in the Commission’s hearing room. SCE&G was represented by K. Chad Burgess, Esquire, Matthew W. Gissendanner, Esquire, Belton T. Zeigler, Esquire, and Mitchell Willoughby, Esquire. SCE&G presented the testimony of Kevin B. Marsh, Stephen A. Byrne, Jimmy E. Addison, W. Keller Kissam, Kevin R. Kochems, and Joseph M. Lynch. The Electric Cooperatives of South Carolina and Central Electric Power Cooperative, Inc. were represented by Frank R. Ellerbe, Esquire, and John H. Tiencken, Jr., Esquire. These two parties presented the testimony of Michael N. Couick. Ms. Sandra Wright intervened in the case and represented herself at the hearing. Ms. Wright presented no witnesses. The South Carolina Energy Users Committee was represented by Scott Elliott, Esquire. SCEUC presented no witnesses. Frank Knapp, Jr. intervened in the case and represented himself at the hearing. Mr. Knapp presented no witnesses. CMC Steel South Carolina did not appear at the hearing, but was otherwise represented by Damon E. Xenopoulos, Esquire, and Eleanor Duffy Cleary, Esquire. The Sierra Club was represented by Robert Guild, Esquire. The Sierra Club presented no witnesses. The South Carolina Coastal Conservation League was represented by J. Blanding Holman, IV, Esquire, and Gudrun Elise Thompson, Esquire. CCL presented the testimony of Alice Napoleon. The Office of

Regulatory Staff was represented by Shannon Bowyer Hudson, Esquire, and Jeffrey M. Nelson, Esquire. ORS presented the testimony of Gary C. Jones and Allyn H. Powell. An evening public hearing was also held on October 4, 2016, for input from members of the public.

IV. SETTLEMENT AGREEMENT

In September of 2016, after the pre-filing of direct testimony by SCE&G and after all parties had been afforded a full opportunity to conduct discovery in this matter, ORS filed the Settlement Agreement with the Commission. It was executed by ORS, SCE&G, Central Electric, the Cooperatives, Frank Knapp, Jr. and SCEUC (the “Settling Parties”). The remaining parties, the Sierra Club, South Carolina Coastal Conservation League, Sandra Wright, and CMC Steel South Carolina, did not sign the Settlement Agreement. The Settlement Agreement is attached to this Order as Order Exhibit No. 1.

The Settling Parties propose that the Settlement Agreement and the modified construction schedule and capital cost schedule attached to it “should be accepted and approved by the Commission as a fair, reasonable and full resolution of all issues” in this proceeding. Hearing Exhibit No. 1 at 14. These schedules reflected the new GSCDs for the Units as contained in the Amendment. The modified construction schedule is attached as Exhibit 1 to the Settlement Agreement. The Settlement Agreement also reflected the Settling Parties’ agreement to an adjustment in the capital cost schedules for the Units of \$831.3 million, which is a reduction of \$20.45 million from the adjustment requested in the Petition in this matter. The modified capital cost schedule that results from the Settlement Agreement is described in the testimony of ORS witness Powell and set out in

DOCKET NO. 2016-223-E – ORDER NO. 2016-794
NOVEMBER 28, 2016
PAGE 10

Exhibit AHP-1, entered into the record as Hearing Exhibit 11. The resulting adjustment would create a BLRA approved capital cost for the Units of \$7.658 billion.

In the Settlement Agreement, SCE&G agreed to several terms that are not reflected in the attached construction or cost schedules. First, SCE&G agreed to fix the price to consumers for EPC Contract costs according to the terms of the Settlement. To accomplish this, SCE&G agreed not to file for approval of additional capital costs associated with the construction of the Units unless the requests are related to certain specifically enumerated exceptions listed at the bottom of page 10, paragraph 12 of the Settlement Agreement. *See also* Tr. at 93-94. SCE&G also agreed that it will not seek recovery for any increase in Owner's Costs associated with transfer of scopes of work from Fixed Cost Categories under the EPC Contract to Owner's Costs categories. Tr. at 92. This prohibition will not apply if the scope of work transferred is to be completed under a fixed price agreement which is less than or equal to the credit (reduction) to the fixed EPC Contract price provided by Westinghouse as a result of the transfer. This provision provides the Settling Parties assurance that transfers of EPC Costs to Owner's Costs will not result in cost increases in categories that are now subject to fixed prices under the Option.

These commitments in the Settlement Agreement will operate as a type of "Guarantee" by SCE&G shareholders of the Option, which is intended "to fix the price to consumers of the EPC Contract costs according to the terms of the Settlement [Agreement]." Settlement Agreement at ¶12. ORS's witness Gary Jones testified that "the Guarantee is the most important aspect of the Settlement Agreement because that provision encourages accountability for construction costs and preserves the benefits to ratepayers

DOCKET NO. 2016-223-E – ORDER NO. 2016-794
NOVEMBER 28, 2016
PAGE 11

from electing the Option.” Tr. at 936. For that reason, the Guarantee “mitigates the risks associated with electing the Option.” *Id.* All witnesses who discussed the matter were clear that the terms of the Guarantee are as set forth in Paragraph 12 of the Settlement Agreement, and a definitive statement of its terms is to be found there.

Second, SCE&G agreed not to file new petitions to update the BLRA capital cost schedules for the Units prior to January 28, 2019. Tr. at 90. SCE&G also agreed that, prior to January 28, 2019, it will not seek revised rates reflecting capital costs greater than those approved in this Order. Both commitments are collectively referred to as the “Moratorium.” The January 28, 2019, date corresponds to the date on which SCE&G would expect to make its final revised rates filing prior to Unit 2 going into service. Furthermore, the Settlement also provides that the end date for the Moratorium will track the completion date for Unit 2 and will be extended day for day if the completion date is extended. As SCE&G witness Marsh indicated, capital costs that are not reflected in revised rates due to the Moratorium will continue to accrue AFUDC as envisioned under the BLRA. Tr. at 95.

Third, SCE&G agreed to place a \$20 million cap on any BLRA recovery for amounts associated with the items listed as unresolved matters on Exhibit C to the Amendment. Tr. at 91. These were disputed items the parties were not in a position to resolve at the time the Amendment was concluded. This \$20 million cap excludes two change orders related to Plant Security Systems Integration and Plant Layout Security, Phase 3. The \$20 million cap provides the Settling Parties assurance that the additional costs of the Exhibit C items will not exceed a reasonable and quantified amount.

Fourth, SCE&G will calculate future revised rates filings using a return on common equity (“ROE”) of 10.25% rather than the ROE of 10.5% that SCE&G agreed to in the settlement underlying Order No. 2015-661. Tr. at 92-93. This new ROE will be used in revised rates filings made on or after January 1, 2017, and prospectively thereafter until the Units are complete.

In support of the Moratorium, the Settlement Agreement revises the milestone schedule for the project to include only two uncompleted milestones. In support of this milestone change, the Settlement Agreement provides for greatly expanded and highly detailed reporting on schedule matters in the quarterly filings required under S.C. Code Ann. § 58-33-277(A) (2015). The milestones discussed in the Settlement Agreement are the substantial completion dates of the two Units. Reducing the remaining milestones in this way recognizes the fact that the substantial completion dates are the key milestone dates going forward and that customers are protected so long as those dates are met. However, if those dates are not met, protection for the customers is found in the form of new provisions governing liquidated damages, which cap liquidated damages at \$371.8 million in aggregate for both Units. The current maximum is \$86 million. The \$371.8 million amount includes \$137.5 million per Unit that Westinghouse must pay SCE&G if a Unit does not qualify for Federal Production Tax Credits. Completion incentives of \$165 million are also included in the Amendment. Tr. at 418-419; 430. In addition, the Company intends to exercise the “Fixed Price” option for the EPC, agreeing to “fix the price to consumers for EPC Contract costs, according to the terms of the settlement.” Settlement Agreement at 10, ¶12. According to Company witness Lynch, the Fixed Price option will

DOCKET NO. 2016-223-E – ORDER NO. 2016-794
NOVEMBER 28, 2016
PAGE 13

save customers between 10.9% and 29.3% of the cost of the project. Tr. at 783. In addition, Westinghouse has made a corporate commitment to complete these Units successfully to protect its AP1000 business worldwide. Tr. at 418. Also, Westinghouse’s parent company, Toshiba Corporation, reaffirmed its guaranty of Westinghouse’s payment obligations under the EPC Contract. Tr. at 419. These terms are in addition to SCE&G’s commitment to “fix the price to consumers for EPC Contract costs, according to the terms of the settlement,” and the other terms of the Moratorium. Settlement Agreement at 10-12, ¶¶ 12-13.

Pursuant to S.C. Code Ann. § 58-33-270(G) (2015), the Settling Parties asked the Commission to hold a hearing on the Settlement Agreement along with the hearing for the Petition. They agreed that “the terms of the Settlement Agreement are reasonable, in the public interest and in accordance with the law and regulatory policy,” and that they “comport with the terms of the BLRA.” Settlement Agreement at 14-15. The Settling Parties asked the Commission to adopt the Settlement Agreement as part of its order in this proceeding. The Commission will rule on that request at the conclusion of its consideration of the evidence and issues raised in this proceeding.

V. STATUTORY STANDARDS AND REQUIRED FINDINGS

S.C. Code Ann. § 58-33-270(E) governs proceedings to update capital cost schedules and construction schedules that have been previously approved under the BLRA. Under this statute, the Commission must grant the relief requested if, after a hearing, the Commission finds “as to the changes in the schedules, estimates, findings or conditions, that the evidence of record justifies a finding that the changes [in previously approved

DOCKET NO. 2016-223-E – ORDER NO. 2016-794

NOVEMBER 28, 2016

PAGE 14

schedules] are not the result of imprudence on the part of the utility.” S.C. Code Ann. § 58-33-270(E)(1) (2015).

VI. FINDINGS RELATED TO COST AND SCHEDULE UPDATES

A. The 2015 Amendment to the EPC Contract

The amendment to the EPC Contract dated October 27, 2015, is attached to SCE&G witness Byrne’s testimony and is a part of Hearing Exhibit No. 10. The Option to transfer costs to the Fixed Cost category is set forth in a document pre-signed by Westinghouse that was attached as Exhibit D to the Amendment. Hearing Exhibit No. 10 at 23. The Amendment and the Option are of primary importance here because they represent more than 90% of the adjustments to the Project’s cost schedule that are proposed in this docket.

B. Overview of the Amendment and the Option

The Amendment and the Option were the result of negotiations involving SCE&G, Santee Cooper, Westinghouse, and Chicago Bridge & Iron (CB&I) that took place during September and October of 2015. Tr. at 56-57. Westinghouse requested a meeting with SCE&G and Santee Cooper during the first week of September 2015. At that meeting, Westinghouse disclosed that CB&I had decided to exit the new nuclear construction business and was requesting terms on which it could be released from its contractual commitments to this project and the sister project at the Vogtle site in Georgia. Tr. at 56.

At the September meeting, Westinghouse also said that, if CB&I were released from the project, Westinghouse would hire the Fluor Corporation (“Fluor”) to assume lead construction responsibilities as a subcontractor to Westinghouse. Fluor would not become a member of the Consortium. Tr. at 57. In order for Westinghouse to remove CB&I from

DOCKET NO. 2016-223-E – ORDER NO. 2016-794

NOVEMBER 28, 2016

PAGE 15

the project, SCE&G and Santee Cooper had to release CB&I from the direct parental guarantees that CB&I had provided to them. In response, SCE&G and Santee Cooper negotiated provisions (a) increasing liquidated damages, (b) restricting the grounds for future change orders, (c) eliminating calendar-based progress payments, (d) establishing a dispute review board and prohibiting litigation while construction was ongoing, (e) extending major equipment warranties to match the new GSCDs of the Units, and (f) resolving all but a limited number of the outstanding change order requests and other claims between the parties.

SCE&G and Santee Cooper also demanded and obtained from Westinghouse the unilateral and irrevocable Option to transfer all but a limited amount of work under the EPC Contract to the Fixed Price cost category. The Option would set a price of \$3.345 billion for all EPC Contract invoices paid after June 30, 2015. Tr. at 432. That price would be subject to future change orders and a limited number of excluded scopes of work in the Time and Materials cost category. By terms of the Amendment, the exercise of this Option is subject to Commission approval, which SCE&G has requested in this proceeding.

The Amendment was signed on October 27, 2015. Effective January 1, 2016, Fluor assumed responsibility for construction work on site and began transferring CB&I's craft workers to Fluor's employment rolls. On July 1, 2016, SCE&G and Santee Cooper provided Westinghouse with an executed copy of the Option agreement subject to review and approval by the Commission. Tr. at 60.

In this proceeding, SCE&G is presenting the cost changes associated with both the Amendment and the Option for incorporation in the updated BLRA cost forecasts. As to

DOCKET NO. 2016-223-E – ORDER NO. 2016-794

NOVEMBER 28, 2016

PAGE 16

both sets of costs, the determinative question is whether the Commission can determine that “the evidence of record justifies a finding that the changes are not the result of imprudence on the part of the utility.” S.C. Code Ann. § 58-33-270(E). For the reasons stated below, the Commission finds that SCE&G has met this statutory standard and that these changes have been shown not to be the result of imprudence on the part of SCE&G. Under the terms of the BLRA, they are properly included in the updated cost forecasts for the Units.

C. The Decision to Incur \$137.5 Million to Procure the Amendment was not the Result of Imprudence on the Part of SCE&G.

The record shows that SCE&G assessed the value of the Amendment as a single integrated package of costs and benefits. Based on the testimony of SCE&G witnesses and those presented by the ORS, in addition to the provisions of the Settlement Agreement, the Commission finds that this approach was reasonable. While it is known and quantifiable at this time that the cost of the Amendment for which approval is sought is \$137.5 million, the terms of the Amendment are primarily intended to control *future* costs and improve the likelihood of meeting *future* schedule commitments. These forward-looking benefits can only be specifically quantified, if at all, when the Units are complete and the intervening circumstances are known. At the hearing in this matter, SCE&G adduced evidence that multiple benefits secured by the Amendment would be sufficient individually to justify the cost paid for it. This is cogent evidence that SCE&G was not imprudent in negotiating it. In sum, there is no basis in this record to conclude that the provisions of the Amendment or its costs are the result of imprudence by SCE&G.

DOCKET NO. 2016-223-E – ORDER NO. 2016-794

NOVEMBER 28, 2016

PAGE 17

SCE&G pursued two principal goals in negotiating the Amendment. One was to restructure the EPC Contract to support the timely completion of the Units. The second was to limit SCE&G's and Santee Cooper's exposure to future price increases under the EPC Contract. Tr. at 59-60. Each of the principal terms of the Amendment supports one or both of these goals. The provisions in the Amendment that principally support the timely and efficient completion of the Units include those (a) ending the divided structure of the Consortium, (b) allowing Fluor to become the construction lead for the project, (c) restructuring and increasing liquidated damages and completion incentives, (d) eliminating calendar-based progress payments, (e) resolving current disputes, (f) limiting future litigation, and (g) minimizing the grounds for future disputes. The principal provisions in the Amendment that limit the exposure of SCE&G and Santee Cooper to future price increases include provisions (a) amending the change in law provision of the EPC Contract, (b) specifying Design Control Document (DCD) Revision No. 19 to be the controlling document for purposes of the project, (c) providing an irrevocable Option to transfer most remaining EPC Contract costs to the Fixed Price category, and (d) resolving most of the payment disputes between the parties. The Commission finds that there is no evidence of imprudence regarding SCE&G's decision to incur costs of \$137.5 million in order to secure these benefits.

D. Approval of the Decision to Exercise the Option

In its Petition in this matter, SCE&G requested a ruling from the Commission affirming its decision to exercise the Option. In the Settlement Agreement the Settling Parties also urge that the Option be approved. SCE&G presented testimony by Dr. Lynch

DOCKET NO. 2016-223-E – ORDER NO. 2016-794

NOVEMBER 28, 2016

PAGE 18

showing that, in the most likely scenarios, the Option will save SCE&G's customers between \$118 million and \$981 million. *See* Hearing Exhibit No. 12.

SCE&G's witnesses testified that Westinghouse understands that it likely will incur costs under the Option that it cannot recover from SCE&G and Santee Cooper. Certain intervenors raised concerns about whether these costs are so great that Westinghouse might be driven to default on its obligations under the EPC Contract or seek to renegotiate the terms of the Option. Tr. at 566-67. That latter concern underlies ORS's view that additional protections in the form of the Guarantee were required for ORS to accept the terms of the Settlement Agreement. Clearly, ensuring the benefits of the Option are not lost due to the magnitude of the obligation incurred by Westinghouse is a principal goal of ORS in negotiating the Guarantee. Of course, under any circumstance, it is best for SCE&G and its shareholders for Westinghouse to hold this risk.

A related question is what would happen if Westinghouse were to default on the EPC Contract and then prove to be insolvent. In that case, SCE&G would have recourse to the Westinghouse parental guarantee from Toshiba, which Toshiba has reaffirmed as part of the Amendment. Tr. at 419. Today, that guarantee would secure approximately \$1 billion in SCE&G's EPC Costs--or about a third of the amount currently remaining to be paid--against Toshiba's publicly reported market capitalization of approximately \$15 billion. In addition, approximately 85% of the equipment needed to complete the Units is now stored on site. Tr. at 414. SCE&G is currently implementing the rights it negotiated under the EPC Contract to place key software, design data and other intellectual property necessary to complete the Units in a third party escrow. Tr. at 458. The Settlement

DOCKET NO. 2016-223-E – ORDER NO. 2016-794

NOVEMBER 28, 2016

PAGE 19

Agreement requires SCE&G to complete this transfer. Furthermore, as a result of the Amendment, Fluor is now fully integrated into the project, managing the on-site construction work and insulated from direct Consortium liability. Even in the direst circumstances with reference to Westinghouse, SCE&G would not be without options to complete the project.

In the end, it is in the best interest of the project, SCE&G and its customers for SCE&G to exercise the Option and transfer to Westinghouse the price risk that the Option represents. The Commission hereby approves the exercise by SCE&G of the Option. The Commission further recognizes that the Guarantee further protects customers from the benefits of the Option being eroded by future events.

E. The Updated Owner's Costs are not the Result of Imprudence On the Part of SCE&G

In its Petition and testimony, SCE&G identified an increase of \$20.8 million in Owner's Costs to complete construction of these Units. Tr. at 459. Owner's Costs include all of the costs SCE&G must bear as owner of the project to oversee construction and engineering on the project. As the holder of active NRC Combined Operating Licenses ("COLs") for the Units, SCE&G is directly responsible for ensuring the quality and safety of all work on-site and at suppliers worldwide. SCE&G also pays license fees to the NRC to cover its costs for inspection and oversight of the project and for maintaining the multiple NRC resident inspectors on site. Under the EPC Contract, SCE&G is contractually obligated to provide security and certain utilities for the site, as well as builder's risk insurance and workers compensation insurance. Tr. at 825-26. To protect its commercial interests and those of its customers, SCE&G audits and reviews all invoices and requests

for payment associated with the project and bears the cost of disputing invoices and change order requests and enforcing its rights under the EPC Contract. As the prospective operator of the Units, SCE&G must recruit, train, and license the personnel needed to operate the Units and must draft and adopt the operating, maintenance and safety plans and procedures for the Units. SCE&G must accept the turnover of individual systems as they are completed by WEC and must test, operate, and maintain them pending completion of the Units. SCE&G must provide the facilities, Information Technology (IT) and other support required by these functions. The New Nuclear Development (“NND”) team comprises approximately 600 SCE&G, SCANA and Santee Cooper personnel who fulfill these tasks. Tr. at 530.

As a result of the Settlement Agreement, the Settling Parties agreed upon the inclusion of an increase of \$30 million in Owner’s Costs. No party has presented any testimony challenging approval of SCE&G proposed updates to Owner’s Costs or the process by which the Owner’s Costs budgets are compiled. In the Settlement Agreement, the Settling Parties support approval of the proposed update to Owner’s Costs. The evidence of record clearly supports the finding by this Commission that the increase in Owners Costs is not a result of imprudence by SCE&G.

F. The Additional Costs Associated with Change Orders are not the Result of Imprudence.

The Company has identified 11 change orders and related matters that were not resolved through the Amendment. In its Petition, SCE&G requested an adjustment of \$52.5 million to the EPC Contract cost for these 11 change orders. As a result of the

Settlement Agreement, the Settling Parties agreed upon the inclusion of \$32.6 million of those costs. See Order Exhibit No. 1, ¶ 6.

The Company's witnesses, Mr. Byrne and Mr. Kochems, provided detailed testimony concerning the justification, purpose and necessity for each of these 11 change orders and their associated costs. They affirmatively testified that the costs associated with each of the 11 change orders represent reasonable and prudent costs of completing the Units. Tr. at 396, 790, 815-24. In addition, ORS witness Powell testified in detail about the change orders and explained the ORS recommendation that this Commission should accept the Change Order costs of \$32.6 million reflected in the Settlement Agreement. Tr. at 729-730.

The Commission finds that the increase to the EPC Contract of \$32.6 million for the 11 change orders discussed above is not the result of imprudence by SCE&G. Therefore, these costs are properly included in the anticipated capital cost schedule for the Units as approved in the Settlement Agreement.

G. Approval of Updates to the Construction Schedule

The updated construction schedule presented in the Petition reflects the approximately two and one-half month change in the GSCD for each of the Units and other adjustments to intervening milestones. SCE&G witness Byrne testified that these milestone changes and the new substantial completion dates are based on extensive construction data WEC provided to SCE&G, and that SCE&G's construction experts carefully reviewed and found the new schedule logical and appropriate. Tr. at 415-16. Mr. Byrne also testified that, in its role as the new construction manager for the project, Fluor

is conducting a full review of the construction schedule to ensure the GSCDs can be met and that any needed mitigation plans are put in place to support the schedule. Mitigation plans are being formulated to ensure that those dates are met. Mr. Byrne further testified that Westinghouse and Fluor have a reasonable construction plan in place to achieve the GSCDs. Tr. at 416. ORS witness Mr. Jones recommended that the Commission approve the proposed revised GSCDs, recognizing that these are contractual dates and accurately reflect what is included in the Amendment, subject to certain conditions regarding the BLRA milestone schedule. Tr. at 926.

Based on this evidence of record, the Commission finds that the revisions to the construction schedules for the Units presented in the Petition are reasonable forecasts of the time required for completing the Units and supported by the evidence of record in this proceeding. They are appropriate schedules for the project under the provisions of the BLRA both in their more detailed form as filed and as modified according to the terms of the Settlement Agreement and they are not the result of any imprudence on the part of SCE&G.

Recognizing, however, that Fluor's fully resource-loaded construction schedule is still outstanding, this Commission directs SCE&G to report on the results of Fluor's review and revision to the resource-loaded integrated project schedule when it is completed.

VII. COMMISSION ACCEPTANCE OF THE SETTLEMENT AGREEMENT

As discussed throughout this Order, this Commission has been presented with a comprehensive Settlement Agreement, joined by a number of parties who have asked that

DOCKET NO. 2016-223-E – ORDER NO. 2016-794

NOVEMBER 28, 2016

PAGE 23

the Settlement Agreement be approved under S.C. Code Ann. § 58-33-270(G). That provision, which is a part of the BLRA, provides the following:

The commission promptly shall schedule a hearing to consider any settlement agreement entered into between the Office of Regulatory Staff, as the party representing the public interest in the proceedings, and the utility applicant, provided that all parties shall have been given a reasonable opportunity to conduct discovery in the docket by the time the hearing is held. The commission may accept the settlement agreement as disposing of the matter, and issue an order adopting its terms, if it determines that the terms of the settlement agreement comport with the terms of this act.

The Commission finds that the Settlement Agreement was entered after all parties had a full opportunity to conduct discovery on the matters at issue in this case, and after SCE&G had submitted approximately 326 pages of prefiled testimony and exhibits, setting out in detail the reasons for the changes in the construction schedule and anticipated cost schedules for the project. Furthermore, the direct and settlement testimony of the ORS's witnesses, Ms. Allyn Powell and Mr. Gary Jones, shows that the ORS's participation in the Settlement Agreement is based on extensive oversight of costs and construction schedules for the project. Tr. at 717-36, 935-37. Santee Cooper witness Michael N. Couick stated that "[t]he detailed understanding that ORS has developed through its work has allowed it to negotiate a tough settlement that required SCE&G to make some significant concessions that we think will make it more likely that the project will be completed on schedule and without additional cost increases. Keeping the project on schedule and reducing the likelihood of additional cost increases should directly benefit the nearly 1.5 million Cooperative members who will be served by our stake in the project." Tr. at 695-A. This Commission believes that these benefits would be equally applicable to SCE&G customers.

Based on these facts, the Commission finds that the Settlement Agreement meets the statutory requirements for adoption under S.C. Code Ann. § 58-33-270(G). In this context, the Commission's task is to review the evidence of record presented by the utility and ORS to ensure that this evidence supports the Settlement Agreement and the terms it encompasses. *See* S.C. Code Ann. § 58-33-270(G).

As indicated above, the evidence adduced at the hearing in this matter establishes that the proposed changes in estimated capital costs are not the result of any imprudence on the part of SCE&G. Collectively, these items represent the \$831.3 million adjustment in the capital cost forecasts for the Units as reflected in the Settlement Agreement and create the total schedule of estimated capital costs for the Units of \$7.658 billion.

As to changes in the construction schedules for the project, the Commission recognizes that the substantial completion dates are now the key milestones remaining to be accomplished and the important milestones to be measured. Changes in other milestones would only be relevant in relation to any resulting changes that they cause in those substantial completion dates. The Settlement Agreement will require extensive reporting of multiple milestone schedules, including all of the milestones contained in the schedules presented in Order No. 2015-661, the milestones that will be contained in the forthcoming resource loaded integrated construction schedule being prepared by Fluor, as well as the new milestone payment schedule being formulated under the auspices of the Dispute Resolution Board. As a result, there will be extensive reporting and transparency concerning construction progress going forward.

In this regard, ORS's statutory oversight and review authority is clear and extensive:

The Office of Regulatory Staff shall conduct on-going monitoring of the construction of the plant and expenditure of capital through review and audit of the quarterly reports under this article, and shall have the right to inspect the books and records regarding the plant and the physical progress of construction upon reasonable notice to the utility.

S.C. Code Ann. § 58-33-277(B) (2015). To support this on-going monitoring, ORS has retained full-time staff, supplemented by an outside nuclear construction expert, who oversee the plant construction for ORS and ensure that the public interest is protected. *See* S.C. Code Ann. §§ 58-33-230(F), 58-33-295 (2015).

The Settlement Agreement contains the Moratorium, the prospective ROE reduction and the cap on remaining Amendment Exhibit C costs. In this regard, the Commission finds SCE&G witness Marsh's settlement testimony to be persuasive concerning the value of settlements in communicating to investors and financial markets that regulation in South Carolina is fair, predictable and reasonable. The Commission believes that settlements of this sort may lower the perceived regulatory risk faced by utilities and therefore improve their ability to raise capital to invest in their utility systems on reasonable terms.

Based on these facts, the Commission finds that the terms of the Settlement Agreement are reasonable, in the public interest and in accordance with the law and regulatory policy. The Commission adopts the Settlement Agreement under the terms of S.C. Code Ann. § 58-33-270 (G).

VIII. PROCEDURAL MATTERS

A. The South Carolina Coastal Conservation League's Testimony

Prior to the hearing in this matter, SCE&G filed a motion to strike the prefiled direct testimony of the CCL's witness Alice Napoleon on the grounds that the testimony was not relevant to the issues in this proceeding. Mrs. Napoleon's testimony analyzed the Company's energy efficiency efforts, discussed changes or additions to energy efficiency programs that SCE&G could potentially implement, and energy efficiency programs that CCL recommended the Company adopt. Tr. at 305. The sole subject of her testimony was energy efficiency programs.

The Commission deferred a ruling on this motion until after the hearing in this matter. In response to Ms. Napoleon's testimony, SCE&G filed rebuttal testimony of Keller Kissam. Ms. Napoleon filed surrebuttal testimony in response. The testimony Ms. Napoleon presented lacks any discussion of the changes to the cost or construction schedules for completing the Units or whether there was any imprudence on the Company's part related to these changes. Although the energy efficiency testimony is likely better presented in the Company's DSM proceeding, it may suggest methods by which an increase in capital costs to the Company's customers may be mitigated to some degree. Accordingly, we hold that the testimony may have some relevance in this proceeding, so the Company's Motion to Strike should be denied.

B. Intervenor Sandra Wright's Motions

The Intervenor, Sandra Wright, filed a Synopsis with this Commission that contained several Motions. The gravamen of two of these motions is that this Commission

DOCKET NO. 2016-223-E – ORDER NO. 2016-794

NOVEMBER 28, 2016

PAGE 27

should re-open the original Base Load Review Act determination and terminate any increases granted since.. We cannot grant such relief. Our original rulings are the law of the case and are final and binding determinations. *See* S.C. Code Ann. Section 58-33-275. Ms. Wright also moves that we place a “cap” on increases. We have discussed the “Fixed Price” option above that limits future ratepayer increases under conditions stated in the Settlement Agreement. Other than approval of this option, no other “cap” on increases is appropriate at this time. These Motions must be denied. Finally, Ms. Wright asks us to remove ORS’s signature from an Agreement. This Commission has no such authority. Accordingly, this Motion must also be denied.

C. Post Hearing Memorandum of the Sierra Club

Counsel for the Sierra Club states that the Commission should reject the requested additional capital costs claimed by the Company where such costs are not sufficiently known and measurable values but are merely values negotiated by the Company and its contractor in settlement of disputed claims. Many of these costs appear in the “Amendment” and in the “Fixed Price Option.” Commission Order No. 2015-661 at 57-61 contained an extensive discussion of the lack of applicability of the “known and measurable” standard to cases under the Base Load Review Act where the use of forecasts was at issue.

As was the case addressed in Order No. 2015-661, the Sierra Club erroneously refers to S.C. Code Ann. Section 58-33-275 (E), the section referring to a utility’s material and adverse deviations from approved schedules. In formulating its challenge to SCE&G’s petition, the Sierra Club confuses the statutory standard that applies to this proceeding. In

DOCKET NO. 2016-223-E – ORDER NO. 2016-794
NOVEMBER 28, 2016
PAGE 28

proceedings to amend cost or construction schedules that have been previously approved under the BLRA, the statutory standard is found in S.C. Code Ann. § 58-33-270(E). *See South Carolina Energy Users Committee v. South Carolina Electric and Gas, et al*, 410 S.C. 348, 764 S.E. 2d 913 (2014). This section requires the Commission to approve the request unless the record supports a finding that the changes in cost or construction schedules are the result of imprudence on the part of the utility. The language used by the Sierra Club in its Post Hearing Memorandum refers to a different part of the statute, S.C. Code Ann. § 58-33-275(E). That section applies where a utility seeks revised rates or other relief and it is shown that there has been a material and adverse deviation from the previously approved schedules. The present proceeding is not such a proceeding. The schedules themselves are before the Commission for review and revision. If the requested relief is granted, there will be new approved schedules and the current costs and negotiated values will conform to them.

In the end, however, both statutory provisions reference a common standard for judging prudence. As pointed out in Order No. 2015-661, prudence in all cases is judged based on what a reasonable person, in this case a utility, would do given the information available to the utility at the time it could take action to anticipate and avoid an unfavorable outcome. Where prudence is concerned, reasonableness of action is measured based on the information available at the time meaningful action is possible, not based on information that becomes available later when the unfavorable outcome has already begun to materialize. In this case, the evidence clearly shows that SCE&G identified risks in a timely fashion and took reasonable and timely action to counter them. There is no basis for a

finding of imprudence. The Commission finds that the cost schedules proposed here fully comply with the decision of the South Carolina Supreme Court in *South Carolina Energy Users Comm. v. South Carolina Pub. Serv. Comm'n*, 388 S.C. 486, 697 S.E.2d 587 (2010).

Under the circumstances of this case, if actual costs were not available, negotiated values include the best evidence available today as to anticipated future costs. Also, as discussed in Order No. 2015-661, the Commission found that the known and measurable standard applies when utility rates are being set based on historical test period data. That standard defines the type of out-of-period adjustments that are permitted to the actual test period data.

Under test period ratemaking methodology, an historical test period is selected to measure revenues and expenses to ascertain what rates are appropriate to allow a utility the reasonable opportunity to recover its costs of serving customers and its cost of capital. Pro forma adjustments may be allowed to the actual test period data to reflect changes that will occur after the test period but only if the events they represent are known with certainty to occur and the effects of them are measurable. The integrity of the historical test period data is a key consideration in this approach to rate making. The known and measurable standard ensures that only a limited set of adjustments are made to the test period data and that those adjustments meet a very high standard of certainty. For example, if a utility were to sign a binding wholesale contract that would take effect after the test period closes, and that contract were to be known to reduce the operating costs of the utility to be borne by retail customers, the effect of that contract could be recognized by a pro forma adjustment to actual test period results. The fact of the contract coming into force would be known and

not speculative and its effects on retail expenses and revenues would be measurable and not uncertain.

Here, as in Order No. 2015-661, we conclude that making changes to the schedule of projected costs under the BLRA is not analogous to supplementing actual test year results. The BLRA specifically permits estimates of anticipated costs. Where forward-looking construction cost schedules under the BLRA are concerned, the anticipated costs are all forecasted costs, they are prospective, and in most cases have some degree of uncertainty as to timing and amount.

Applying the known and measurable standard to BLRA cost forecasts would make the BLRA unworkable, since few if any of the costs of prospective base load construction projects are both known and measurable as those terms are understood in historical test period rate regulation. The known and measurable concept simply does not apply in this context.

The Sierra Club quotes with approval the Direct Testimony of Gary C. Jones, an engineer testifying for the Office of Regulatory Staff. Jones testified that certain figures presented by the Company lacked objective documentation, and were merely negotiated values. Despite these statements in Direct Testimony, Mr. Jones later presented Settlement Testimony in which he supported the Settlement Agreement, stating that it was reasonable, and that it represented a collaborative effort to address the concerns raised by ORS and the Settling Parties during their review of the Petition. Tr. at 934-937. If Mr. Jones expressed doubt in his Direct Testimony, he certainly tempered that doubt by his endorsement of the Settlement Agreement in later testimony. As stated above, Mr. Jones testified that “the

DOCKET NO. 2016-223-E – ORDER NO. 2016-794
NOVEMBER 28, 2016
PAGE 31

Guarantee is the most important aspect of the Settlement Agreement because that provision encourages accountability for construction costs and preserves the benefits to ratepayers from electing the Option.” Tr. at 936.

As previously stated, in this proceeding, SCE&G is presenting the cost changes associated with both the Amendment and the Option for incorporation in the updated BLRA cost forecasts. As to both sets of costs, the determinative question is whether the Commission can determine that “the evidence of record justifies a finding that the changes are not the result of imprudence on the part of the utility.” S.C. Code Ann. § 58-33-270(E).

We cannot say that the Company’s actions were imprudent in negotiating values in this case. Clearly, the BLRA specifically permits estimates of anticipated costs. The negotiated values were reasonable estimates of such costs. Under the terms of the BLRA, they are properly included in the updated cost forecasts for the Units.

In Order No. 2009-104(A), which was the original BLRA ruling on the construction of V.C. Summer Units 2 and 3, the record showed that the risks of proceeding with construction of these Units include licensing and regulatory risks, which include the risk that the NRC or other licensing agencies might delay the project by delaying the issuance of necessary permits, or might change regulatory or design requirements so as to increase costs or create construction delays. Risks of the project considered in that Order also included the risks related to the design and engineering that remains to be done on the Units; risks of procurement, fabrication and transportation related to equipment and components for the Units; construction and quality assurance risks generally; risks related to hiring, training and retaining the personnel needed to construct and operate the Units;

DOCKET NO. 2016-223-E – ORDER NO. 2016-794

NOVEMBER 28, 2016

PAGE 32

financial and inflation risks; and disaster and weather-related risks. Many of these risks were not quantifiable at the time of the issuance of that Order in 2009.

In ruling on whether the decision to construct Units 2 and 3 was reasonable and prudent in Order 2009-104(A), the Commission had to evaluate the risks of constructing these units compared to the risks of meeting the energy needs of SCE&G's customers by other means. As Mr. Byrne and Mr. Marsh testified in the original Base Load proceeding, the risks related to other alternatives included the uncertainty as to future CO2 emissions cost; the uncertainty as to future coal and natural gas prices and supplies; the relatively large amount of coal and gas-fired generation already included in SCE&G's generation mix; the uncertainty as to the future costs and availability of AP1000 units or other nuclear units; the loss of special federal tax incentives if construction is delayed and other factors.

The Commission concluded in Order No. 2009-104(A) that there was no risk-free means to meet the future energy needs of SCE&G's customers or of the state of South Carolina. Based on the evidence of record, the Commission found that it was reasonable and prudent to proceed with the construction of Units 2 and 3 in light of the information available at that time and the risks of the alternatives, although many of the risks were not specifically quantifiable. A similar principle applies to this Commission's consideration of the Amendment, the Fixed Price Option, and many of the other costs in the present case. The Company quantified the areas that it could, but formulated a way to present other costs for approval so as to recover prudent costs while protecting the utility's customers from the responsibility for imprudent costs, in this case, by way of a Settlement Agreement. Order 2009-104(A) at 90-91.

DOCKET NO. 2016-223-E – ORDER NO. 2016-794

NOVEMBER 28, 2016

PAGE 33

As stated in the *South Carolina Energy Users* case, the purpose of the Base Load Review Act “is to provide for the recovery of the prudently incurred costs associated with new base load plants...when constructed by investor-owned electrical utilities, while at the same time protecting customers of investor-owned electrical utilities from the responsibility for imprudent financial obligations or costs.” S.C. Code Ann. Section 58-33-210 (2015). Both goals are met in this case. As discussed above, this Commission’s adoption of the Settlement Agreement provides for the recovery of the prudently incurred costs associated with the new V.C. Summer units. Adoption of the Settlement Agreement also protects customers of SCE&G from the responsibility for imprudent financial obligations or costs. SCE&G witness Marsh testified as to several features of the Settlement Agreement designed to increase protection of customers: 1) New Liquidated Damages that are four times larger than contained in the original EPC contract; 2) Price Certainty which minimizes SCE&G’s exposure to future cost increases and shifts multiple categories of price risk to Westinghouse; 3) Reduction in Future Disputes by adoption of the Fixed Price Option; and 4) Clarification as to when a change in law will be recognized as supporting a Change Order. Tr. at 57-62.

For all of these reasons, the arguments expressed in the Post-Hearing Memorandum of the Sierra Club must be rejected.

IX. FINDINGS OF FACT AND CONCLUSIONS OF LAW

1. The updated capital cost schedule contained in Order Exhibit No. 1 reflects \$831.3 million in costs that have not previously been presented to the Commission for review and approval.

DOCKET NO. 2016-223-E – ORDER NO. 2016-794

NOVEMBER 28, 2016

PAGE 34

2. The evidence in the record demonstrates that \$831.3 million in newly identified and itemized costs are not the result of imprudence on the part of SCE&G.

3. The specific components of the \$831.3 million in newly identified and itemized costs represent costs that, along with other provisions of the Settlement Agreement, will provide benefits to customers and the project, and include costs which SCE&G must reasonably be expected to pay for completing the Units and preparing to operate them safely, efficiently and reliably.

4. The additional costs that SCE&G is incurring as Owner of the project are not the result of imprudence on the part of SCE&G.

5. The updated milestone construction schedule contained in Order Exhibit No. 1 reflects the delay in the substantial completion dates of Unit 2 until August 31, 2019, and of Unit 3 to August 31, 2020. The evidence shows that SCE&G was not imprudent in its management of this aspect of the project.

6. The Settlement Agreement fully conforms to the terms of S.C. Code Ann. § 58-33-270(G) and its terms comport with the terms of the BLRA and are supported by the evidence.

7. The Motion to Strike the Direct Testimony of CCL witness Napoleon and the Motions contained in the Sandra Wright Synopsis should be denied.

8. The arguments presented in the Post Hearing Memorandum of the Sierra Club should be rejected.

Now, therefore,

IT IS HEREBY ORDERED:

1. That the Settlement Agreement attached hereto as Order Exhibit No. 1, is approved and the terms therein shall be accepted and adopted by this Order pursuant to S.C. Code Ann. § 58-33-270(G).

2. That it is this Commission's expectation that SCE&G will provide updates to this Commission regarding the progress of the V.C. Summer project through the Commission's allowable ex parte procedure no less than twice a year until further notice.

3. That the construction milestones schedule set forth in Exhibit 1 to the Settlement Agreement shall be the approved construction milestone schedule for the Units for purposes of the administration of the Base Load Review Act unless and until such time as the Commission approves a substitute schedule pursuant to S.C. Code Ann. § 58-33-270(E). The Company shall report on the results of Fluor's review and revision to the resource-loaded integrated project schedule when completed.

4. That the capital cost schedule set forth in Exhibit 2 to the Settlement Agreement shall be the approved capital cost schedule for the Units for purposes of the administration of the Base Load Review Act unless and until such time as the Commission approves a substitute schedule pursuant to S.C. Code Ann. § 58-33-270(E).

5. That the future quarterly reports filed by SCE&G under S.C. Code Ann. § 58-33-277 shall reflect the modified schedules approved in this Order and the additional information required by the Settlement Agreement. The Company shall also include in its future quarterly reports data regarding both production and productivity as compared to

DOCKET NO. 2016-223-E – ORDER NO. 2016-794
NOVEMBER 28, 2016
PAGE 36

what is forecasted in Fluor's revised fully resource-loaded integrated construction schedule, as well as construction progress towards the milestone payments that are contained in the milestone payment schedule.

6. That SCE&G is encouraged to take all actions available to ensure that it qualifies for production tax credits.

7. That the Motion to Strike the direct testimony of CCL witness Napoleon and the Motions contained in the Synopsis of Sandra Wright are denied.

8. That the arguments presented in the Post Hearing Memorandum of the Sierra Club are rejected.

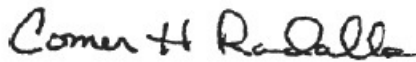
9. That this Order shall remain in full force and effect unless and until modified by a subsequent order of the Commission.

BY ORDER OF THE COMMISSION:



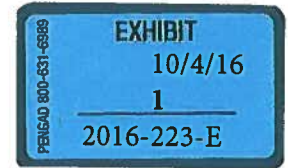
Swain E. Whitfield, Chairman

ATTEST:



Comer H. Randall, Vice Chairman

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2016-223-E



September 1, 2016

IN RE:

Petition of South Carolina Electric & Gas
Company for Updates and Revisions to
Schedules Related to the Construction of a
Nuclear Base Load Generation Facility at
Jenkinsville, South Carolina

**SETTLEMENT
AGREEMENT**

This Settlement Agreement ("Settlement Agreement") is made by and among the South Carolina Office of Regulatory Staff ("ORS"); the Central Electric Power Cooperative, Inc. ("Central"); the Electric Cooperatives of South Carolina, Inc. ("The Cooperatives"); Frank Knapp, Jr.¹; South Carolina Energy Users Committee ("SCEUC"); and South Carolina Electric & Gas Company ("SCE&G" or the "Company") (collectively referred to as the "Parties", "Settling Parties", or sometimes individually as a "Party").

WHEREAS, on May 26, 2016, SCE&G filed a petition ("Petition") with the Public Service Commission of South Carolina ("Commission") requesting an order from the Commission approving SCE&G's updated capital cost schedule and updated construction schedule for the construction of two 1,117 net megawatt nuclear units ("Units" or "Units 2 and 3") to be located at the V.C. Summer Nuclear Station near Jenkinsville, South Carolina, as well as the Commission's approval of SCE&G's decision to exercise an option ("Option") in the October 2015 Amendment

¹ *Pro se* and President and CEO of the South Carolina Small Business Chamber of Commerce.

(“Amendment”) to the Engineering, Procurement and Construction Agreement (the “EPC Contract”) that would move many of the EPC Contract costs to a fixed price category;

SCE&G filed its Petition pursuant to S.C. Code Ann. § 58-33-270(E) (2015) of the Base Load Review Act (“BLRA”), which states:

(E) As circumstances warrant, the utility may petition the commission, with notice to the Office of Regulatory Staff, for an order modifying any of the schedules, estimates, findings, class allocation factors, rate designs, or conditions that form part of any base load review order issued under this section. The commission shall grant the relief requested if, after a hearing, the commission finds:

- (1) as to the changes in the schedules, estimates, findings, or conditions, that the evidence of record justifies a finding that the changes are not the result of imprudence on the part of the utility; and
- (2) as to the changes in the class allocation factors or rate designs, that the evidence of record indicates the proposed class allocation factors or rate designs are just and reasonable.

SCE&G states in its Petition that circumstances warrant modifying the schedules approved in the most recent Base Load Review order because in September 2015 Westinghouse Electric Company (“WEC”) and Chicago Bridge & Iron (“CB&I”) (“Consortium”) approached SCE&G and Santee Cooper about CB&I’s desire to exit the project. Negotiations ensued leading to an agreement reached on October 27, 2015, between SCE&G and WEC to amend the EPC Contract. The Amendment allowed CB&I to exit the project and required WEC to assume sole responsibility for the project going forward. WEC additionally granted SCE&G an option to convert the EPC Contract to a “fixed-price” agreement that incorporated many of the EPC Contract costs into a total fixed price;

SCE&G has requested Commission approval of an updated Milestone Schedule (Exhibit 1 to the Application) which reflects new guaranteed substantial completion dates (“GSCDs”) for Units 2 and 3 of August 31, 2019, and August 31, 2020, respectively;

The Amendment resolved most outstanding disputes under the EPC Contract and increased the EPC Contract price by \$137.5 million over the estimate approved by the Commission in Order No. 2015-661. The increase in EPC Contract cost under the Amendment does not include reversing a credit of \$85.5 million for liquidated damages which SCE&G had included in previous cost estimates. The Option offered by WEC to SCE&G to convert the EPC Contract to an agreement that incorporated many of the EPC Contract costs into a total fixed price, represents an increase to the Total Gross Construction Cost of \$505.54 million for a total cost for WEC to complete all scopes of work covered by the Option from July 1, 2015, through completion of the project of \$3.345 billion, with exceptions for Transmission and Owner's Costs, as well as certain Time and Materials ("T&M") scopes of work, valued at approximately \$38.3 million;²

Exhibit 1 to the Application indicates that it will take WEC and its construction manager Fluor Corporation, Nuclear Division ("Fluor") until August 31, 2019, and August 31, 2020, to complete Units 2 and 3, respectively, and that the additional costs associated with the Amendment and reflected in the updated capital cost schedule will be incurred to complete construction of the Units in light of CB&I's exit from the project;

After an extensive review, SCE&G determined that circumstances warranted petitioning the Commission, under the BLRA, to approve the Amendment, including the Option, in order to update the approved construction and capital cost schedules to reflect changes to these schedules based on the terms of the Amendment and the Option. SCE&G has modified, and submitted for consideration and approval of the Commission the BLRA Milestone Construction Schedule, as reflected in Settlement Exhibit 1 attached hereto, to align remaining BLRA Milestones as approved in Order No. 2015-661 to the new Substantial Completion Dates and to the current construction and fabrication schedules;

² All dollar amounts herein represent SCE&G's 55% share of the costs of constructing the Units.

As stated in its Petition, SCE&G also requests approval from the Commission to exercise the Option provided for under the Amendment to the EPC Contract and approval of the capital cost schedule for completion of the Units, as reflected in Settlement Exhibit 2, attached hereto, to reflect (a) the effects of the new Substantial Completion Dates on Owner's costs and EPC Contract costs, and (b) other changes in costs that have been identified since the issuance of Commission Order No. 2015-661;

ORS is automatically a party to this proceeding pursuant to S.C. Code Ann. §58-4-10(B) (2015). In connection with this case as well as since the inception of this project, ORS has exercised its rights and fulfilled its responsibilities under S.C. Code Ann. § 58-33-277 (2015) to monitor the status of the project, by, among other things, routinely and regularly observing the progress of the plant construction and submodule production, requesting and reviewing substantial amounts of relevant financial data when made available by the Company, auditing the quarterly reports submitted by the Company pursuant to the BLRA, inspecting the books and records of the Company regarding the plant and physical progress of construction, and reviewing to the extent possible SCE&G's request to enter into the Amendment to the EPC Contract and modify the Units' construction and capital cost schedules; and

The Commission established Docket No. 2016-223-E in which to hear the Company's request set forth in the Petition, has allowed for public comment and intervention in the above-captioned docket, and has granted the Motions to intervene in this docket by SCEUC, Central and The Cooperatives:

NOW THEREFORE, WHEREAS, the Settling Parties have varying positions regarding the issues in this case, have engaged in discussions to determine if a Settlement Agreement would be in their best interest; and have each determined that their interest and/or the public interest would be best served by agreeing to settle the issues in the above-captioned case under the terms

and conditions set forth in this Settlement Agreement, the Settling Parties hereby stipulate and agree to the following:

A. STIPULATION OF SETTLEMENT AGREEMENT, TESTIMONY AND WAIVER OF CROSS-EXAMINATION

1. The Settling Parties agree to stipulate into the record before the Commission this Settlement Agreement.

2. The Settling Parties agree to stipulate into the record before the Commission the prefiled testimony and exhibits (collectively "Stipulated Testimony") of the following witnesses without objection, change, amendment, or cross-examination with the exception of changes comparable to that which would be presented via an errata sheet or through a witness noting a correction consistent with this Settlement Agreement. The Settling Parties agree that no other evidence will be offered in the proceeding by them other than the Stipulated Testimony and exhibits and this Settlement Agreement unless 1) Settlement Testimony supporting this Settlement Agreement is filed by the Settling Parties or 2) additional evidence is necessary to support the Settlement Agreement. The Settling Parties also reserve the right to engage in redirect examination of witnesses as necessary to respond to issues raised by the examination of their witnesses, if any, by non-Settling Parties or by testimony filed by non-Settling Parties, and any such testimony shall be supportive of the terms of this Settlement Agreement.

SCE&G witnesses:

1. Kevin B. Marsh
2. Stephen A. Byrne
3. W. Keller Kissam
4. Jimmy E. Addison
5. Joseph M. Lynch
6. Kevin R. Kochems

ORS witnesses:

1. Allyn Powell
2. Gary Jones

Any testimony, whether direct, rebuttal, or surrebuttal, filed by the Settling Parties after the signing of this Settlement Agreement must be consistent with the terms of the Settlement Agreement. If the Settling Parties determine that rebuttal or surrebuttal testimony should be filed in response to any testimony filed by any Intervenor that is not a signatory to this Settlement Agreement, then the Settling Parties hereto agree that any such testimony likewise would be stipulated into the record before the Commission under this Settlement Agreement without objection, change, amendment, or cross-examination with the exception of changes comparable to that which would be presented via an errata sheet or through a witness noting a correction consistent with this Settlement Agreement.

B. SETTLEMENT TERMS

3. SCE&G has identified approximately \$137.5 million in additional capital costs that it deems as reasonable and necessary for completion of the construction of the Units through the delayed Substantial Completion Dates. These additional capital costs were made a part of the EPC Contract via the Amendment and have been assigned to specific cost categories as reflected and included in Settlement Exhibit 2. In the context of this settlement, the Settling Parties agree not to contest the inclusion of these costs in the updated capital cost schedules, included in Settlement Exhibit 2.

4. The \$137.5 million increase in EPC costs does not include the reversal of an additional \$85.53 million in liquidated damages which would have been fully earned by SCE&G based on the Consortium's failure to meet the forecasted completion dates of Units 2 and 3 had the Amendment to the EPC Contract not been executed. This \$85.53 million in liquidated damages was credited to SCE&G's ratepayers in Commission Order No. 2015-661. In the context of this settlement, the Settling Parties agree not to contest the inclusion of these costs, previously credited

to ratepayers, through the reversal of this credit in the updated capital cost schedules in Settlement Exhibit 2 subject to certain conditions as detailed below.

5. ORS and the Settling Parties have reviewed the Option, the scope of work necessary to complete the EPC Contract and the Sensitivity Analysis prepared by SCE&G Witness Joseph M. Lynch. The Settling Parties agree that, based on the sensitivity study presented in SCE&G Witness Lynch's testimony and the work remaining, the \$505.54 million price for SCE&G to exercise the "Fixed Price" option amendment to the EPC Contract appears to be cost beneficial to the Company and its ratepayers given the current circumstances. In the context of this settlement, the Settling Parties agree not to contest the Company's exercising of the Option and the inclusion of these costs in the updated capital schedules, included in Settlement Exhibit 2, subject to SCE&G agreeing to certain conditions as provided below.

6. The Settling Parties agree to permit inclusion in the BLRA-approved capital cost schedule for the Units \$32.58 million of the Company's requested \$52.45 million in costs for Change Orders. Of the \$32.58 million, the following Change Orders, totaling \$8.83 million, are accepted as proposed in the Company's Testimony: Training Staff Augmentation, Escrowing, Transmission, CAP-I, ITAAC Maintenance, PMP Analysis, Classroom Simulator, and Primavera costs. With respect to Plant Layout Security, Phase 3 and Plant Security Systems Integration, amounts of \$17.39 million and \$6.32 million, respectively, shall be included in the BLRA-approved capital cost schedule for the Units. The amounts for Plant Layout Security, Phase 3 and Plant Security Systems Integration, totaling \$23.75 of the \$32.58 million, represent the latest available data at the time of this Settlement, not final proposals or signed Change Orders, and the Settling Parties recognize that the Company may update the costs associated with these Change Orders in future BLRA proceedings consistent with the terms of this Settlement Agreement. As for the Service Building, Third Floor, the Settling Parties agree that SCE&G shall transfer the

associated amount from the Fixed Price category to the Owner's Cost category and the amounts shall be included in the BLRA-approved capital cost schedule along with any associated escalation and AFUDC. Specifically for the Service Building, including the Third Floor, SCE&G agrees to reduce the Fixed Price category in the amount of \$11.92 million, which includes the \$6.9 million requested in this Petition for the Service Building, 3rd Floor and the \$5.02 million already in the Fixed Price for the Service Building, 1st and 2nd Floor, and increase the Owners Cost category in the amount of \$10.48 million (which includes escalation), and to not seek recovery from ratepayers in any future proceeding for any costs in excess of \$10.48 million for the Service Building. After execution of the Change Order between SCE&G and WEC regarding the Service Building, SCE&G will provide a copy of the Change Order to ORS and if necessary, SCE&G will adjust the Owners Cost category consistent with the terms of this Settlement.

7. SCE&G has additionally identified and requested in its filing an increase to its Owner's Costs of \$20.83 million. These additional costs are generally attributable to the requested extension of the duration of the construction project to complete Units 2 and 3 and also reflect the refinement of previous cost estimates as certain costs related to operations and the start-up period are now better known. These costs have been assigned to specific cost categories that are detailed and included in Settlement Exhibit 2. In the context of this settlement, the Settling Parties agree not to contest the inclusion of these costs.

8. The Settling Parties agree that SCE&G shall not include in the BLRA-approved capital cost schedule at this time the additional \$4.3 million in Transmission costs requested by the Company in its Petition. The basis for these costs is not yet well known as the final methodology for switchyard modifications has not yet been determined. The Company may seek inclusion of these Transmission costs in future BLRA proceedings.

9. SCE&G has further sought AFUDC and other escalation costs of approximately \$44.7 million, which the Settling Parties understand will be adjusted in accordance with the BLRA. These are currently estimated at \$45.18 million.

10. SCE&G seeks approval of the updated BLRA milestone schedule, included as Settlement Exhibit 1, which the Company claims reflects the planned construction schedule necessary to complete the Units by the Guaranteed Substantial Completion Dates of August 31, 2019, for Unit 2 and August 31, 2020, for Unit 3. In the context of this settlement, the Settling Parties agree not to contest the construction schedule submitted by SCE&G. However, recognizing that Fluor's full input into the construction schedule is not yet available and that these BLRA milestones reflect construction milestones established by a previous construction contractor, the Settling Parties agree, for the purposes of BLRA compliance, that the Substantial Completion Dates will be the only Commission-approved BLRA milestones for the balance of the project and will be the only milestones considered when assessing BLRA compliance with the Commission-approved construction schedules, subject to the 18 month window described in Order No. 2009-104(A), page 123. Upon Fluor completing a fully resource loaded integrated schedule as approved by Westinghouse, SCE&G will provide a report based on this schedule to ORS and the Commission that includes the current dates for the BLRA milestones set forth in Exhibit 1 of SCE&G's Petition in this Docket as well as construction payment milestones outlined in the revised milestone payment schedule. Prior to the completion and approval of the fully resource loaded integrated schedule SCE&G will provide status updates on the schedule in its quarterly reports and SCE&G agrees to provide updates on the status of both BLRA and construction payment milestones in its quarterly reports through the end of the project. SCE&G also agrees to include data on construction and craft staffing, productivity and production in its quarterly reports,

and to provide to ORS a method to compare productivity pre and post-Fluor's resource loading of the construction schedule.

11. SCE&G agrees to detail and report all milestone payments made in accordance with the milestone payment schedule in each quarterly report through the completion of the project and, in the event that the milestone payment schedule has not been resolved by the time of the hearing in this docket, to report on the status of the milestone payment dispute in its next quarterly report.

12. In this proceeding, SCE&G has requested that the Commission approve, pursuant to S.C. Code Ann. § 58-33-270(E), changes in the forecasted schedule of cost of the project consistent with the Amendment. SCE&G has also requested that the Commission approve the exercising of an Option included in the Amendment, which converts many of the EPC Contract costs into a fixed price category. As set out in the Petition, the additional cost of \$505.54 million associated with the Option would cover all work within the scope of the existing EPC Contract and Amendment, excluding certain "Time and Materials Work" currently valued at approximately \$38.3 million. ORS and the other Intervenor Settling Parties have reviewed the Option, the scope of work necessary to complete the EPC Contract and the Sensitivity Analysis prepared by SCE&G Witness Joseph M. Lynch. The Settling Parties agree that the payment for the option will not be contested, provided that SCE&G takes certain steps to ensure that ratepayers retain the benefit of the fixed price. SCE&G therefore agrees to fix the price to consumers for EPC Contract costs according to the terms of this Settlement. To effect this, SCE&G agrees that it will not file any future requests with the Commission seeking any additional or updated budget increases related to the construction of Units 2 and 3 unless such request(s) are related to signed change orders; Transmission Costs; Time and Materials costs specifically outlined in Paragraph 2, Page 1 of the Option that relate to sales tax, performance bond and insurance premiums, import duties, and mandatory spare parts and extended equipment warranty costs not covered in paragraph 6 of the

Amendment; costs associated with decisions of the Dispute Review Board adverse to SCE&G; costs associated with the issues listed in Exhibit C of the Amendment; or Owners Costs under certain conditions. Owners Cost increases will only be considered if they are related to staffing costs due to delays or are new costs not identified at the time of this filing. Owners Cost increases shall not be considered if they involve a transfer of scope from Westinghouse's Fixed Price category unless SCE&G can complete the scope of work pursuant to a contract that fixes the price in an amount equal to or less than the amount of the credit provided by Westinghouse in the Credit Change Order that moves the scope of work from Westinghouse to SCE&G. SCE&G may also apply for increases in any category that are attributable to changes in law, as defined in Paragraph 14 of the Amendment to the EPC Contract. With respect to Exhibit C of the Amendment, which contains a list of items not resolved or released under the Amendment, SCE&G agrees that it will not request increases in costs in a future modification proceeding exceeding \$20 million in total for the items on Exhibit C, excluding Plant Layout Security, Phase 3 and Plant Security Systems Integration. SCE&G further agrees to inform ORS of all changes in cost projections from those contained in Settlement Exhibit 2 and to document all changes in cost projections in its quarterly reports to ORS and the Commission.

13. With respect to those costs not covered by the prohibition described in paragraph 12 of this Settlement Agreement, SCE&G further agrees that it will not file any future modification requests with the Commission for amendments to the capital cost schedules related to the construction of Units 2 and 3 prior to January 28, 2019.³ The Settling Parties agree that this

³ If the projected commercial operation date for Unit 2 of August 31, 2019, is extended, then the expiration of the January 28, 2019 moratorium, as set forth throughout this Agreement, shall be extended in an equal amount of time. Any such extension of the moratorium, however, shall not apply to any modification request for increases in any category that are attributable to changes in law as defined in Paragraph 14 of the Amendment to the EPC Contract. Accordingly, SCE&G may file a modification request for increases in any category that are attributable to changes in law any time after January 28, 2019.

moratorium will not prohibit SCE&G from seeking recovery through revised rates for Commission-approved costs prudently incurred in accordance with Settlement Exhibits 1 and 2 or as otherwise allowed by Paragraph 12. The Company will not seek revised rates reflecting costs incurred in excess of those approved in this Docket prior to January 28, 2019.⁴ The Settling Parties agree that the moratorium described in this paragraph will be revoked should a revised rates request be denied due to SCE&G's adherence to the modification moratorium.

14. The Settling Parties agree that a decision regarding the reasonableness or prudence of any bonus incentives pledged by SCE&G to WEC under the terms of the EPC Contract or Amendment will be delayed and not included in any filing prior to January 28, 2019.⁵ The Settling Parties reserve the right to contest any such bonuses in future proceedings.

15. SCE&G agrees to take any and all actions necessary to exercise its rights under the EPC Contract or Amendment to require WEC to escrow certain engineering intellectual property and to include in all future quarterly reports the status of its efforts to have the intellectual property

⁴ SCE&G, pursuant to S.C. Code Ann. § 58-33-280 (2015), will file a final set of revised rates seven months before the projected date that the Units are to commence commercial operations. For any costs subject to the moratorium that arise after the Commission's order issued in this Docket, SCE&G intends to file a petition for updates and revisions to the capital cost schedule before those costs may be included SCE&G's final set of revised rates. Therefore, the moratorium date of January 28, 2019, will allow SCE&G the opportunity to file a petition for updates and revisions to the capital cost schedule in advance of SCE&G filing its final set of revised rates. However, if the projected commercial operation date for Unit 2 of August 31, 2019, is extended, then the expiration of the January 28, 2019 moratorium, as set forth throughout this Agreement, shall be extended in an equal amount of time. Any such extension of the moratorium, however, shall not apply to any modification request for increases in any category that are attributable to changes in law as defined in Paragraph 14 of the Amendment to the EPC Contract. Accordingly, SCE&G may file a modification request for increases in any category that are attributable to changes in law any time after January 28, 2019. If such modification request is granted, then, notwithstanding the moratorium, SCE&G may include those approved costs related to change in law in subsequent revised rates filings as the costs are actually incurred.

⁵ If the projected commercial operation date for Unit 2 of August 31, 2019, is extended, then the expiration of the January 28, 2019 moratorium, as set forth throughout this Agreement, shall be extended in an equal amount of time. Any such extension of the moratorium, however, shall not apply to any modification request for increases in any category that are attributable to changes in law as defined in Paragraph 14 of the Amendment to the EPC Contract. Accordingly, SCE&G may file a modification request for increases in any category that are attributable to changes in law any time after January 28, 2019.

escrowed. SCE&G will continue to report on the status of the escrow of intellectual property in quarterly reports through completion of the project.

16. In sum, the Amendment, the Option and other modifications detailed in SCE&G's Application sought an increase in the capital cost for the Units of \$852 million to a total \$7.68 billion for the Units with escalation as reflected in Application Exhibit 2. The Settling Parties hereby agree, as detailed above, to an increase of \$831.3 million (a reduction of \$20.45 million from the requested increase of \$852 million) for a total estimated of approximately \$7.658 billion in current dollars as reflected in Settlement Exhibit 2, subject to the terms of this Settlement Agreement.

17. The Settling Parties also agree that the restated and updated capital cost schedule detailed in Settlement Exhibit 2 attached hereto, should be approved by the Commission as the new construction expenditure schedule for completion of the Units. Specifically, Settlement Exhibit 2 should replace and supersede Order Exhibit No. 2 of Order No. 2015-661.

18. By Commission Order No. 2015-661, the Commission established a return on equity of ten and one-half percent (10.5%), which is applicable for revised rates filings made on or after January 1, 2016, under the Base Load Review Act. As a condition of this Settlement Agreement and for Base Load Review Act purposes only, beginning with any revised rates filing made on or after January 1, 2017, and prospectively thereafter until such time as the Units are completed, SCE&G agrees to develop and calculate its revised rates filings using ten and one-quarter percent (10.25%) as the return on common equity rather than the approved return on common equity of ten and one-half percent (10.50%) subject to Paragraph 23 hereof.⁶⁷

⁶ The Electric Cooperatives and Central do not take a position regarding a reduction in SCE&G's return on common equity.

⁷ Any revised rates placed into effect prior to January 1, 2017, shall not be affected by this Settlement Agreement, and the Settling Parties specifically agree that Paragraph 18 of the Settlement Agreement is not intended to require SCE&G to provide any offset, credit, refund, reimbursement, or other compensation to customers for rates

19. The Settling Parties agree that the terms of this Settlement Agreement are reasonable, in the public interest and in accordance with law and regulatory policy.

20. ORS is charged with the duty to represent the public interest of South Carolina pursuant to S.C. Code Ann. § 58-4-10(B) (2015). S.C. Code Ann. § 58-4-10(B)(1) through (3) reads in part as follows:

“...‘public interest’ means a balancing of the following:

- (1) Concerns of the using and consuming public with respect to public utility services, regardless of the class of customer;
- (2) Economic development and job attraction and retention in South Carolina; and
- (3) Preservation of the financial integrity of the State’s public utilities and continued investment in and maintenance of utility facilities so as to provide reliable and high quality utility services.”

21. The Settling Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution of all issues in the above-captioned proceeding, and shall neither take any position contrary to the good faith duty agreed to herein nor encourage or aid any other Intervenor to take a position contrary to the terms of this Settlement Agreement. The Settling Parties agree to use reasonable efforts to defend and support any Commission order with no other provisions issued approving this Settlement Agreement and the terms and conditions contained herein.

22. The Settling Parties request that the Commission hold a hearing on this Settlement Agreement, pursuant to S.C. Code Ann. § 58-33-270(G) (2015), simultaneously with the hearing

considered and approved by the Commission and placed into effect prior to January 1, 2017. The reduction in the Company’s return on equity shall only be prospectively applied for the purpose of calculating revised rates sought by the Company on and after January 1, 2017, until such time as the Units are completed and for Base Load Review Act purposes only.

on the merits of the Petition, which is currently scheduled to begin on October 4, 2016, and request that the Commission adopt this Settlement Agreement as part of its Order in this proceeding. In furtherance of this request, the Settling Parties stipulate and agree that the terms of this Settlement Agreement comport with the terms of the BLRA.

23. This Settlement Agreement contains the complete agreement of the Settling Parties. There are no other terms and conditions to which the Settling Parties have agreed. The Settling Parties agree that this Settlement Agreement will not constrain, inhibit or impair their arguments or positions held in future proceedings, nor will this Settlement Agreement, or any of the matters agreed to in it, be used as evidence or precedent in any future proceeding, provided, however, that the provisions of S.C. Code Ann. §§ 58-33-275(A) and (B) shall apply to any order of the Commission adopting, approving, or accepting this Settlement and no party shall take a contrary position in any future proceeding. Any Party may withdraw from the Settlement Agreement without penalty if (i) the Commission does not approve this Settlement Agreement in its entirety; (ii) an appellate court does not affirm in all respects the Commission's order approving this Settlement Agreement in its entirety; or (iii) the Commission or an appellate court does not affirm or apply the provisions of this Settlement Agreement in future proceedings while it is in force. If a Party elects to withdraw from the Settlement Agreement pursuant to this paragraph, then the provisions of this Settlement Agreement will no longer be binding upon the Settling Parties.


24. This Settlement Agreement shall be effective upon execution by the Settling Parties and shall be interpreted according to South Carolina law. The above terms and conditions fully represent the agreement of the Settling Parties hereto. Therefore, each Settling Party acknowledges its consent and agreement to the terms and conditions of this Settlement Agreement by affixing his or her signature or authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his

or her client has authorized the execution of the Settlement Agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

[Signatures on the following pages.]

WE AGREE:

Representing and binding the South Carolina Office of Regulatory Staff


Shannon Bowyer Hudson, Esquire
Jeffrey M. Nelson, Esquire
South Carolina Office of Regulatory Staff
1401 Main Street, Suite 900
Columbia, SC 29201
Phone: (803) 737-0889
Fax: (803) 737-0895
Email: shudson@regstaff.sc.gov
jnelson@regstaff.sc.gov

I AGREE:

Representing and binding Frank Knapp, Jr.

A handwritten signature in black ink, appearing to read "Frank Knapp, Jr.", written over a horizontal line.

Frank Knapp, Jr.
118 East Selwood Lane
Columbia, SC 29212
Phone: (803) 765-2210
Email: fknapp@knappagency.com

WE AGREE:

Representing and binding South Carolina Energy Users Committee



Scott Elliott, Esquire
Elliott & Elliott, P.A.
1508 Lady Street
Columbia, SC 29201
Phone: (803) 771-0555
Fax: (803) 771-8010
Email: selliott@elliottlaw.us

WE AGREE:

Representing and binding South Carolina Electric & Gas Company



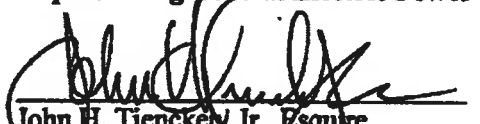
K. Chad Burgess, Esquire
Matthew W. Gissendanner, Esquire
South Carolina Electric & Gas Company
Mail Code C222
220 Operation Way
Cayce, SC 29033
Phone: (803) 217-8141
Fax: (803) 217-7931
Email: chad.burgess@scana.com
matthew.gissendanner@scana.com

Belton T. Zeigler, Esquire
Womble Carlyle Sandridge & Rice, LLP
1727 Hampton Street
Columbia, SC 29201
Phone: (803) 454-6504
Fax: (803) 454-6509
Email: bzeigler@popezeigler.com

Mitchell Willoughby, Esquire
Willoughby & Hoefer, P.A.
Post Office Box 8416
930 Richland Street
Columbia, SC 29202-8416
Phone: (803) 252-3300
Fax: (803) 256-8062
Email: mwilloughby@willoughbyhoefer.com

WE AGREE:

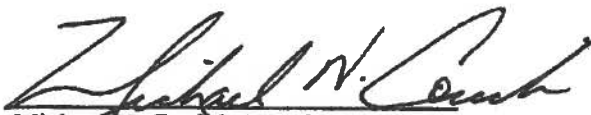
Representing Central Electric Power Cooperative, Inc.



John H. Tiencken, Jr., Esquire
Tiencken Conway, LLC
234 Seven Farms Drive, Suite 114
Charleston, SC 29492
Email: jtiencken@tienckenconway.com

WE AGREE:

Representing The Electric Cooperatives of South Carolina, Inc.



Michael N. Couick, Esquire
The Electric Cooperatives of South Carolina, Incorporated
808 Knox Abbott Drive
Cayce, SC 29033
Email: mike.couick@ecsc.org

Frank R. Ellerbe, III, Esquire
Robinson, McFadden & Moore, P.C.
Post Office Box 944
Columbia, SC 29202-0944
Email: fellerbe@robinsonlaw.com

Settlement Exhibit 1
Page 1 of 3

Tracking ID	Order No. 2015-561 Description	Order No. 2015-561 Date	Revised Completion Date	Unit
1	Approve Engineering Procurement and Construction Agreement	Complete	Complete	
2	Issue POs to nuclear component fabricators for Units 2 & 3 Containment Vessels	Complete	Complete	
3	Contractor Issue PO to Passive Residual Heat Removal Heat Exchanger Fabricator - First Payment - Unit 2	Complete	Complete	
4	Contractor Issue PO to Accumulator Tank Fabricator - Unit 2	Complete	Complete	
5	Contractor Issue PO to Core Makeup Tank Fabricator - Units 2 & 3	Complete	Complete	
6	Contractor Issue PO to Squib Valve Fabricator - Units 2 & 3	Complete	Complete	
7	Contractor Issue PO to Steam Generator Fabricator - Units 2 & 3	Complete	Complete	
8	Contractor Issue Long Lead Material PO to Reactor Coolant Pump Fabricator - Units 2 & 3	Complete	Complete	
9	Contractor Issue PO to Pressurizer Fabricator - Units 2 & 3	Complete	Complete	
10	Contractor Issue PO to Reactor Coolant Loop Pipe Fabricator - First Payment - Units 2 & 3	Complete	Complete	
11	Reactor Vessel Internals - Issue Long Lead Material PO to Fabricator - Units 2 & 3	Complete	Complete	
12	Contractor Issue Long Lead Material PO to Reactor Vessel Fabricator - Units 2 & 3	Complete	Complete	
13	Contractor Issue PO to Integrated Head Package Fabricator - Units 2 & 3	Complete	Complete	
14	Control Rod Drive Mechanism Issue PO for Long Lead Material to Fabricator - Units 2 & 3 - first payment	Complete	Complete	
15	Issue POs to nuclear component fabricators for Nuclear Island structural CA20 Modules	Complete	Complete	
16	Start Site Specific and balance of plant detailed design	Complete	Complete	
17	Instrumentation & Control Simulator - Contractor Place Notice to Proceed - Units 2 & 3	Complete	Complete	
18	Steam Generator - Issue Final PO to Fabricator for Units 2 & 3	Complete	Complete	
19	Reactor Vessel Internals - Contractor Issue PO for Long Lead Material (Heavy Plate and Heavy Forgings) to Fabricator - Units 2 & 3	Complete	Complete	
20	Contractor Issue Final PO to Reactor Vessel Fabricator - Units 2 & 3	Complete	Complete	
21	Variable Frequency Drive Fabricator Issue Transformer PO - Units 2 & 3	Complete	Complete	
22	Start clearing, grubbing and grading	Complete	Complete	
23	Core Makeup Tank Fabricator Issue Long Lead Material PO - Units 2 & 3	Complete	Complete	
24	Accumulator Tank Fabricator Issue Long Lead Material PO - Units 2 & 3	Complete	Complete	
25	Pressurizer Fabricator Issue Long Lead Material PO - Units 2 & 3	Complete	Complete	
26	Reactor Coolant Loop Pipe - Contractor Issue PO to Fabricator - Second Payment - Units 2 & 3	Complete	Complete	
27	Integrated Head Package - Issue PO to Fabricator - Units 2 and 3 - second payment	Complete	Complete	
28	Control Rod Drive Mechanism - Contractor Issue PO for Long Lead Material to Fabricator - Units 2 & 3	Complete	Complete	
29	Contractor Issue PO to Passive Residual Heat Removal Heat Exchanger Fabricator - Second Payment - Units 2 & 3	Complete	Complete	
30	Start Parr Road Intersection work	Complete	Complete	
31	Reactor Coolant Pump - Issue Final PO to Fabricator - Units 2 & 3	Complete	Complete	
32	Integrated Head Packages Fabricator Issue Long Lead Material PO - Units 2 & 3	Complete	Complete	
33	Design Finalization Payment 3	Complete	Complete	
34	Start site development	Complete	Complete	
35	Contractor Issue PO to Turbine Generator Fabricator - Units 2 & 3	Complete	Complete	
36	Contractor Issue PO to Main Transformers Fabricator - Units 2 & 3	Complete	Complete	
37	Core Makeup Tank Fabricator Notice to Contractor Receipt of Long Lead Material - Units 2 & 3	Complete	Complete	
38	Design Finalization Payment 4	Complete	Complete	
39	Turbine Generator Fabricator Issue PO for Condenser Material - Unit 2	Complete	Complete	
40	Reactor Coolant Pump Fabricator Issue Long Lead Material Lot 2 - Units 2 & 3	Complete	Complete	
41	Passive Residual Heat Removal Heat Exchanger Fabricator Receipt of Long Lead Material - Units 2 & 3	Complete	Complete	
42	Design Finalization Payment 5	Complete	Complete	
43	Start erection of construction buildings, to include craft facilities for personnel, tools, equipment; first aid facilities; field offices for site management and support personnel; temporary warehouses; and construction hiring office	Complete	Complete	
44	Reactor Vessel Fabricator Notice to Contractor of Receipt of Flange Nozzle Shell Forging - Unit 2	Complete	Complete	
45	Design Finalization Payment 6	Complete	Complete	
46	Instrumentation and Control Simulator - Contractor Issue PO to Subcontractor for Radiation Monitor System - Units 2 & 3	Complete	Complete	
47	Reactor Vessel Internals - Fabricator Start Fit and Welding of Core Shroud Assembly - Unit 2	Complete	Complete	
48	Turbine Generator Fabricator Issue PO for Moisture Separator Reheater/Feedwater Heater Material - Unit 2	Complete	Complete	
49	Reactor Coolant Loop Pipe Fabricator Acceptance of Raw Material - Unit 2	Complete	Complete	
50	Reactor Vessel Internals - Fabricator Start Weld Neutron Shield Spacer Pads to Assembly - Unit 2	Complete	Complete	

Settlement Exhibit 1
Page 2 of 3

Tracking ID	Order No. 2015-461 Description	Order No. 2015-461 Date	Revised Completion Date	Unit
51	Control Rod Drive Mechanisms - Fabricator to Start Procurement of Long Lead Material - Unit 2	Complete	Complete	
52	Contractor Notified that Pressurizer Fabricator Performed Cladding on Bottom Head - Unit 2	Complete	Complete	
53	Start excavation and foundation work for the standard plant for Unit 2	Complete	Complete	
54	Steam Generator Fabricator Notice to Contractor of Receipt of 2nd Steam Generator Tubesheet Forging - Unit 2	Complete	Complete	
55	Reactor Vessel Fabricator Notice to Contractor of Outlet Nozzle Welding to Flange Nozzle Shell Completion - Unit 2	Complete	Complete	
56	Turbine Generator Fabricator Notice to Contractor of Condenser Fabrication Started - Unit 2	Complete	Complete	
57	Complete preparations for receiving the first module on site for Unit 2	Complete	Complete	
58	Steam Generator Fabricator Notice to Contractor of Receipt of 1st Steam Generator Transition Cone Forging - Unit 2	Complete	Complete	
59	Reactor Coolant Pump Fabricator Notice to Contractor of Manufacturing of Casing Completion - Unit 2	Complete	Complete	
60	Reactor Coolant Loop Pipe Fabricator Notice to Contractor of Machining, Heat Treating & Non-Destructive Testing Completion - Unit 2	Complete	Complete	
61	Core Makeup Tank Fabricator Notice to Contractor of Satisfactory Completion of Hydrotest - Unit 2	Complete	Complete	
62	Polar Crane Fabricator Issue PO for Main Hoist Drum and Wire Rope - Units 2 & 3	Complete	Complete	
63	Control Rod Drive Mechanisms - Fabricator to Start Procurement of Long Lead Material - Unit 3	Complete	Complete	
64	Turbine Generator Fabricator Notice to Contractor of Condenser Ready to Ship - Unit 2	Complete	Complete	
65	Start placement of mud mat for Unit 2	Complete	Complete	
66	Steam Generator Fabricator Notice to Contractor of Receipt of 1st Steam Generator Tubing - Unit 2	Complete	Complete	
67	Pressurizer Fabricator Notice to Contractor of Welding of Upper and Intermediate Shells Completion - Unit 2	Complete	Complete	
68	Reactor Vessel Fabricator Notice to Contractor of Closure Head Cladding Completion - Unit 3	Complete	Complete	
69	Begin Unit 2 first nuclear concrete placement	Complete	Complete	
70	Reactor Coolant Pump Fabricator Notice to Contractor of Start Core Completion - Unit 2	Complete	Complete	
71	Fabricator Start Fit and Welding of Core Shroud Assembly - Unit 2	Complete	Complete	
72	Steam Generator Fabricator Notice to Contractor of Completion of 1st Steam Generator Tubing Installation - Unit 2	Complete	Complete	
73	Reactor Coolant Loop Pipe - Shipment of Equipment to Site - Unit 2	Complete	Complete	
74	Control Rod Drive Mechanism - Ship Remainder of Equipment (Latch Assembly & Rod Travel Housing) to Head Supplier - Unit 2	Complete	Complete	
75	Pressurizer Fabricator Notice to Contractor of Welding of Lower Shell to Bottom Head Completion - Unit 2	Complete	Complete	
76	Steam Generator Fabricator Notice to Contractor of Completion of 2nd Steam Generator Tubing Installation - Unit 2	Complete	Complete	
77	Design Finalization Payment 14	Complete	Complete	
78	Set module CA04 for Unit 2	Complete	Complete	
79	Passive Residual Heat Removal Heat Exchanger Fabricator Notice to Contractor of Final Post Weld Heat Treatment - Unit 2	Complete	Complete	
80	Passive Residual Heat Removal Heat Exchanger Fabricator Notice to Contractor of Completion of Tubing - Unit 2	Complete	Complete	
81	Polar Crane Fabricator Notice to Contractor of Glider Fabrication Completion - Unit 2	Complete	Complete	
82	Turbine Generator Fabricator Notice to Contractor of Condenser Ready to Ship - Unit 3	Complete	Complete	
83	Set Containment Vessel ring #1 for Unit 2	Complete	Complete	
84	Reactor Coolant Pump Fabricator Delivery of Casing to Port of Export - Unit 2	Complete	Complete	
85	Reactor Coolant Pump Fabricator Notice to Contractor of Start Core Completion - Unit 3	Complete	Complete	
86	Reactor Vessel Fabricator Notice to Contractor of Receipt of Core Shell Forging - Unit 3	Complete	Complete	
87	Contractor Notified that Pressurizer Fabricator Performed Cladding on Bottom Head - Unit 3	Complete	Complete	
88	Set Nuclear Island structural module CA03 for Unit 2	Complete	Complete	
89	Squib Valve Fabricator Notice to Contractor of Completion of Assembly and Test for Squib Valve Hardware - Unit 2	Complete	Complete	
90	Accumulator Tank Fabricator Notice to Contractor of Satisfactory Completion of Hydrotest - Unit 3	Complete	Complete	
91	Polar Crane Fabricator Notice to Contractor of Electric Panel Assembly Completion - Unit 2	Complete	Complete	
92	Start containment large bore pipe supports for Unit 2	Complete	Complete	
93	Integrated Head Package - Shipment of Equipment to Site - Unit 2	Complete	Complete	
94	Reactor Coolant Pump Fabricator Notice to Contractor of Final Stator Assembly Completion - Unit 2	Complete	Complete	
95	Steam Generator Fabricator Notice to Contractor of Completion of 2nd Steam Generator Tubing Installation - Unit 3	Complete	Complete	
96	Steam Generator Fabricator Notice to Contractor of Satisfactory Completion of 1st Steam Generator Hydrotest - Unit 2	Complete	Complete	
97	Passive Residual Heat Removal Heat Exchanger - Delivery of Equipment to Port of Entry - Unit 2	Complete	Complete	
98	Refueling Machine Fabricator Notice to Contractor of Satisfactory Completion of Factory Acceptance Test - Unit 2	Complete	Complete	
99	Deliver Reactor Vessel internals to Port of Export - Unit 2	Complete	Complete	
100	Steam Generator - Contractor Acceptance of Equipment at Port of Entry - Unit 2	Complete	Complete	
101	Turbine Generator Fabricator Notice to Contractor of Turbine Generator Ready to Ship - Unit 2	Complete	Complete	
102	Pressurizer Fabricator Notice to Contractor of Satisfactory Completion of Hydrotest - Unit 3	Complete	Complete	

South Carolina Electric & Gas Company

Settlement Exhibit 1
Page 3 of 3

Tracking ID	Order No 2015-661 Description	Order No 2015-661 Date	Revised Completion Date	Unit
103	Receive Unit 2 Reactor Vessel on site from fabricator	Complete	Complete	
104	Steam Generator Fabricator Notice to Contractor of Completion of 2nd Channel Head to Tubesheet Assembly Welding - Unit 3	Complete	Complete	
105	Place first nuclear concrete for Unit 3	Complete	Complete	
106	Main Transformers Ready to Ship - Unit 2	Complete	Complete	
107	Complete Unit 3 Steam Generator Hydrotest at fabricator	Complete	Complete	
108	Set Unit 2 Containment Vessel Bottom Head on basement legs	Complete	Complete	
109	Main Transformers Fabricator Issue PO for Material - Unit 3	Complete	Complete	
110	Main Transformers Ready to Ship - Unit 3	Complete	Complete	
111	Spent Fuel Storage Rack - Shipment of Last Rack Module - Unit 3	Complete	Complete	
112	Unit 2 Substantial Completion	6/19/2019	8/31/2019	Unit 2
113	Unit 3 Substantial Completion	6/16/2020	8/31/2020	Unit 3

RESTATED and UPDATED CONSTRUCTION EXPENDITURES
(Thousands of \$)

V.C. Summer Units 2 and 3 - Summary of SCE&G Capital Cost Components

Actual through March 2016* plus
Projected

Plant Cost Categories	Actual										Projected			
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total	3,657,459	35,186	22,068	67,394	50,551	68,057	22,980	11,834	368,348	763,742	1,110,388	756,960	326,881	63,852
Firm with No Adjustment	266,750	-	63,250	27,500	24,200	75,075	42,900	7,700	28,125	-	-	-	-	-
Firm with Fixed Adjustment A	239,868	-	5,499	49,513	39,371	45,043	31,048	22,834	8,791	-	-	-	-	-
Firm with Fixed Adjustment B	873,741	-	45,869	148,713	137,871	118,789	150,530	129,994	26,822	0	-	-	-	-
Firm with Indexed Adjustment	153,308	-	312	1,837	11,892	21,091	25,217	38,785	24,503	0	-	-	-	-
Actual Craft Wages	408,836	-	1,271	31,255	9,288	65,227	70,154	105,380	44,564	(0)	-	-	-	-
Non-Labor Costs	60,816	-	1,013	155	784	1,878	2,300	4,055	2,048	6,781	9,413	24,329	6,686	410
Time & Materials	837,363	17,098	8,198	15,206	29,276	43,643	47,245	51,807	56,885	113,992	133,878	127,821	108,102	62,372
Owners Costs	328,512	-	28	927	11,984	51,677	56,593	46,439	44,401	58,471	47,360	12,530	-	-
Transmission Costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Base Project Costs(2007 \$)	8,804,751	21,723	97,366	318,073	314,877	488,461	446,947	418,839	601,466	830,968	1,301,138	822,040	438,666	128,434
Total Project Escalation	532,137	-	3,519	20,930	34,084	74,485	88,622	93,328	54,891	21,431	34,105	43,355	25,071	14,578
Total Revised Project Cash Flow	7,336,888	21,723	100,885	340,003	348,961	562,946	537,569	511,965	656,378	852,397	1,335,245	865,395	463,740	141,010
Cumulative Project Cash Flow(Revised)	21,723	122,929	482,632	861,183	1,210,244	1,773,190	2,310,759	2,822,724	3,479,101	4,431,488	5,768,743	6,732,139	7,195,878	7,336,888
APUDC(Capitalized Interest)	321,322	645	3,487	10,564	14,216	19,841	27,722	28,131	22,202	33,731	60,830	53,505	23,121	8,985
Gross Construction	7,658,210	22,368	104,403	350,587	363,278	581,886	565,291	538,068	678,580	988,129	1,388,175	1,018,900	488,881	148,975
Construction Work In Progress	22,368	126,771	477,338	883,039	1,258,317	1,838,203	2,403,495	2,941,580	3,620,170	4,608,299	6,002,474	7,021,374	7,508,235	7,658,210

*Applicable index escalation rates for 2016 are estimated. Escalation is subject to escalation when actual indices for 2016 are final.

Notes:

Current Period APUDC rate applied

5.35%

Escalation rates vary from reporting period to reporting period according to the terms of Commission Order 2005-104(A).
These projections reflect current escalation rates. Future changes in escalation rates could substantially change these projections.
The APUDC rate applied in the current SCE&G rate, APUDC rates can vary with changes in market interest rates.
SCE&G's embedded cost of capital, capitalization ratios, construction work in process, and SCE&G's short-term debt outstanding.

Crosby, Michael

From: Carter, Lonnie
Sent: Monday, November 28, 2016 1:08 PM
To: MARSH, KEVIN B (KMARSH@scana.com)
Subject: Wednesday's SCE&G/Santee Cooper meeting
Attachments: Nuclear Timelines--Project Management.docx; Nuclear Timeline-Bankruptcy.docx; Securitization Assessment Nov 28 2016.doc.docx

Kevin,

This letter is sent to assist you in preparation for our meeting on Wednesday (11/30), as both our teams prepare for the joint Board meeting scheduled on December 5. We both share the strong desire to work as a team to see the Summer 2&3 Project successfully completed. This letter is offered in that spirit:

From Santee Cooper's perspective, there are 3 primary items we need to discuss on Wednesday. Candidly, the first two have become items of frustration for Santee Cooper, and have put me in an awkward position with my Board, who are insisting to know why no action has been taken. I asked Santee Cooper's team to prepare timelines which show when the items were raised and discussed. These timelines are written from Santee Cooper's perspective, and perhaps will provide insight to your team.

1. Increased project management expertise in large scale EPC construction.
2. Bankruptcy counsel.
3. Release of the Bechtel Report to the Cooperatives.

Increased project management expertise in large scale EPC construction--We need to be prepared to discuss with our Board, after two years of requests and an affirmative commitment from you on more than one occasion, why this has not yet been done. The attached timeline is illustrative.

The formation of the CORB was SCANA's response to the Betchel Report and Santee Cooper's request for better Project oversight with large EPC experience. Based on the recommendations we heard at both CORB briefings, I am concerned that we learn critical information too late from an outside team that comes in quarterly for a few days, which should have been brought to our attention by our teams. The information we learned last week was very important and key to the effectiveness of our President's Meetings with WEC and Fluor.

As we discussed following the call, we must determine if our teams have the knowledge and expertise to glean this key information. If they do have the knowledge and expertise, then what are the reasons the information does not reach us? If they do not have the knowledge and expertise, what can be done to staff in such a manner to have this information available in a timely manner? I recommend that we move quickly to act on the CORB's recommendations and set specific timeframes for our team to implement.

Bankruptcy counsel—Bankruptcy expertise would significantly inform our team as we negotiate with WEC going forward. Our separate, collective and independent analysis suggests that the fixed price option offered by WEC is likely significantly less than the cost WEC will incur to complete the Project. This is the very reason that we selected the fixed price. Regrettably, we must anticipate WEC having financial difficulty completing the Project, particularly in a timely manner. We should consider all options available to us that will insure WEC lives up to our Agreement. Our strategies should contemplate potential bankruptcies for both WEC and Toshiba. Toshiba's weakened financial condition is an unfortunate development as WEC's guarantor that we must also consider.

After no action on our repeated requests on this topic, as indicated in the attached timeline, I asked our legal team to find bankruptcy counsel. When we advised the SCANA team of this and our recommendation, no response has been received. This issue is of such concern to the Santee Cooper Board (as the timeline shows this was brought up at our first joint Board meeting) that I further asked our legal team to conduct an assessment of the securitization of the Project in the event WEC is unable to finish. This is something that

would typically be undertaken by counsel with bankruptcy expertise. The securitization assessment is attached for your benefit. We will be prepared to discuss it further on Wednesday.

Release of the Bechtel Report to the Cooperatives—We are backed into a corner on this. Our largest customer, having learned of it through intervention in SCE&G's fixed price petition, demands a copy of the report. Our requests to your legal team to put some parameters around the disclosure has been met with the response that we should not release it. Not releasing this information will likely bring formal requests that will be an untenable position for both our companies.

We look forward to our discussion on Wednesday.

Thanks,
Lonnie

December 27, 2016

Toshiba Corporation

FOR IMMEDIATE RELEASE

**Possibility of Recognition of Goodwill and Loss related to
Westinghouse's Acquisition of CB&I Stone & Webster**

Toshiba Corporation (TOKYO: 6502) hereby gives an update related to goodwill booking following the acquisition of CB&I Stone & Webster (S&W), Inc.'s nuclear construction and integrated services business by Westinghouse Electric Company, LLC (Westinghouse).

Westinghouse entered into a Purchase Agreement (PA) to acquire 100% of the shares of S&W from Chicago Bridge & Iron Company N.V. (CB&I), and the transaction closed in December 2015, as notified in the January 5, 2016 announcement "Completion of Acquisition of CB&I Stone & Webster Inc." That announcement explained that the amount of goodwill would be finalized by December 31, 2016, in accordance with US GAAP procedures. At the time, the estimate of the goodwill resulting from the transaction was approx. US\$87 million, which was a preliminary determination and subject to change.

Currently, as the timing reaches the deadline (December 31, 2016) for the procedure, the possibility has been found that the goodwill will reach a level of several 100 billion yen or several billion US dollars, resulting in a negative impact on Toshiba's financial results, as a result of impairment of all or part of the goodwill. Recognizing this possibility, Toshiba made today's announcement, prior to the financial closing and announcement of results, though the figures are still subject to determination.

Westinghouse, in accordance with US GAAP, has been engaged in purchase accounting and studying the actual status based on materials provided by S&W and others after the transaction completion. In this process, Westinghouse is evaluating the cost to complete the AP1000 contracts in order to measure the fair value of acquired assets and liabilities. Westinghouse has found that the cost to complete the US projects will far surpass the original estimates, mainly due to increases in key

project parameters, resulting in far lower asset value than originally determined, leading to a possible recognition of goodwill far exceeding the original December 2015 estimate of US\$87 million. The required goodwill impairment testing is under study and has not yet been determined, although current estimation shows a level of several 100 billion yen or several billion US dollars, Impairment testing for the goodwill will be initiated by both Westinghouse and Toshiba toward the third quarter FY2016 business results. There is possibility of an impairment of all or part of the goodwill for both Westinghouse and Toshiba, depending on the results.

Toshiba announced its financial forecast for FY2016 on November 8, 2016, but due to today's announcement, it is now required to determine the value of the possible Westinghouse loss and its impact on its financials. Toshiba will announce its revised forecast at the earliest possibility after determining the impact.

###



INTER-OFFICE COMMUNICATION

Date: February 13, 2017
To: Board of Directors
From: Lonnie N. Carter, President & CEO
Subject: Board Meeting

Lady and Gentlemen:

We look forward to seeing you on Tuesday's Board meeting at the McNair Law Firm, Suite 1800, 1221 Main Street, Columbia. The formal meeting begins at 1:30 pm, lunch will be provided at the meeting room at 12:30pm.

As we approach the joint Board meeting, please allow me to share a few thoughts. First, as background for the meeting, the following facts are pertinent:

1. Money paid to WEC thus far (100%): **\$6.6 billion**
2. Remaining funds to be paid under \$6.082 billion fixed price option (100%): **\$4.2 billion**
3. Current contract completion dates: Unit Two—**August 31, 2019** Unit Three—**August 31, 2020**
4. PTC deadline date under current law: **December 31, 2020**
5. WEC estimated schedule variance prior to Toshiba announcement: Unit Two—**163 days (February 10, 2020)** Unit Three—**26 days ahead (August 5, 2020)**. **Owners deem these figures unreliable.**
6. Current work productivity factor average for last 3 months: **.7% monthly Project completion for Oct-Dec of 2016, currently taking 3 hours of activity to complete 1 hour of work**
7. Owners' completion calculation using above productivity factor: **69.1% of Project remains to be completed. Project construction progress must increase to 2.3% per month to meet current contract completion dates.**

Tomorrow's announcement by Toshiba will be a continuation of the uncertainty facing the completion of Summer Units 2 and 3 brought on by Toshiba's accounting scandals. Following the announcement, the Owners will need to, among several things, monitor the financial community's backing of Toshiba. Tomorrow, there are three major themes to discuss with the SCANA Board and reach a general understanding:

1. **WEC/Toshiba Solvency.** Can and will Toshiba provide funds to complete US nuclear construction? Owners of the four US units are WEC's largest creditors, we should not prepare to pay any further money over fixed price without taking control of WEC through bankruptcy.
2. **Schedule/ Productivity.** Any new schedule must be fully resource loaded including materials (commodities), equipment, and people (hours). Owners should not accept any new schedule without verifying that the schedule can be accomplished and subcontractor CEO's have signed off. To maintain stakeholder and regulatory credibility, Owners must publicly decline to endorse schedule until benchmarks established for the first six (6) months of the new schedule, measured against the Contractor's performance, confirm the credibility of the new schedule
3. **CORB Report.** Critical to Project progress, what is SCANA's plan with respect to the CORB report, which recommended in November of 2016 that more Owner management was needed in three specific areas of the Project (infrastructure, execution, and schedule quality)? This is consistent with Santee Cooper's position all along, the Bechtel report delivered in October of 2015, and now bankruptcy attorney Paul Singer last week

Thank you in advance for your guidance and leadership tomorrow in this important meeting.

[SCG] - SCANA Corporation - 4th Quarter 2016 Earnings Conference Call/Webcast
Thursday, February 16, 2017, 3:00 PM Eastern

Officers

Kevin Marsh; Chairman, CEO
Jimmy Addison; CFO
Steve Byrne; SCE&G; COO
Iris Griffin; VP, Finance

Analysts

Julien Dumoulin-Smith; UBS
Travis Miller; Morningstar
Stephen Byrd; Morgan Stanley
Kamal Patel; Wells Fargo
Michael Lapides; Goldman Sachs
Andy Levi; Avon Capital Advisors
Ashar Khan; Verition
Chris Melendes; Wellington Management
Dan Jenkins; State of Wisconsin Investment Board
Vedula Murti; BlueCrest Capital
David Paz; Wolfe Research
Mitchell Moss; Lord Abbett

Presentation

Operator: Good afternoon, ladies and gentlemen. Thank you for standing by. I will be your conference facilitator today. At this time I would like to welcome everyone to the SCANA Corporation conference call. All lines have been placed on mute to prevent any background noise. (Operator Instructions)

As a reminder, this conference call is being recorded on Thursday, February 16th, 2017. Anyone who does not consent to the taping may drop off the line.

At this time I would like to turn the call over to Iris Griffin, Vice President of Finance.

Iris Griffin: Thank you and welcome to our Analyst Call.

As you know, earlier today we announced financial results for the fourth quarter and full year of 2016. We will begin our call with prepared remarks and, after our comments, we will respond to your questions.

Please note that the presentation slides referred to during the call are only available through our webcasting service until the start of our Q&A session. Once our Q&A session begins, the full presentation will be available at scana.com in the Webcasts & Presentations section of the Investors webpage.

Additionally, we post information related to our new nuclear project and other investor information directly to our website at scana.com. On SCANA's homepage, there is a yellow box containing links to the Nuclear Development and Other Investor Information sections of the website.

It is possible that some of the information that we post directly to our website may be deemed material information that has not otherwise become public. You can sign up for email alerts under the Investors section of scana.com to notify you when there are new postings in the Nuclear Development and Other Investor Information sections of the website.

Finally, before I turn the call over to Kevin, I would like to remind you that certain statements that may be made during today's call are considered forward-looking statements and are subject to a number of risks and uncertainties as shown on slide 2.

The Company does not recognize an obligation to update any forward-looking statements. Additionally, we may disclose certain non-GAAP measures during this presentation, and the required Reg G information can be found either in the Investors section of our website under Webcasts & Presentations or in the slides for this presentation.

I'll now turn the call over to SCANA's Chief Executive Officer, Kevin Marsh.

Kevin Marsh: Good afternoon to everyone. I know many of you are joining us on the call today not only to hear our financial results for 2016, but also to learn more about the status of Westinghouse and the impact of Toshiba's financial challenges on our new nuclear construction project. Obviously, we have been following the updates from Toshiba very closely, and we will have comments for you on today's call.

However, before we get into that discussion, Jimmy Addison, SCANA's Chief Financial Officer will provide you with an overview of our financial results for 2016, followed by Steve Byrne, SCE&G's Chief Operating Officer, with an update on the construction of our new nuclear units. I will then conclude our prepared remarks with an update on Westinghouse and Toshiba before we move into our Q&A session.

I'll now turn the call over to Jimmy.

Jimmy Addison: Thanks, Kevin, and thank you all for joining us today.

I'll begin our earnings discussion on slide 3. Earnings in the fourth quarter of 2016 were \$0.87 per share, compared to \$0.69 per share in the same quarter of 2015.

Electric margins benefited from a Base Load Review Act rate increase, customer growth, and favorable weather compared to the same quarter of last year. Results also improved due to increased gas margins primarily attributable to the implementation of rate increases at PSNC and SCE&G.

These increases were partially offset by higher O&M and CapEx-related items, including depreciation, interest, and property taxes.

At the bottom of the slide, you will note that abnormal weather decreased electric margins by \$0.08 per share in the fourth quarter of 2016, and \$0.14 per share in the fourth quarter of 2015, resulting in a positive \$0.06 per share impact to earnings quarter over quarter.

Slide 4 shows earnings for the year ended December 31, 2016, of \$4.16 per share, compared to \$5.22 per share for 2015. The decline is mainly attributable to the net of tax gains on the sales of two subsidiaries in 2015.

During 2016, electric margins were higher due primarily to a Base Load Review Act rate increase, customer growth, and weather. Gas margins were also higher due to customer growth and rate increases.

These increases were partially offset by higher O&M and CapEx-related items, including depreciation, interest, and property taxes.

Abnormal weather increased electric margins in both years, accounting for \$0.19 per share in 2016 and \$0.08 per share in 2015, resulting in a favorable \$0.11 per share impact to earnings year over year.

Now on slide 5, I'd like to briefly review the earnings results for our principal lines of business.

SCE&G grew significantly for the quarter and the year due primarily to increasing electric margins from continued recovery of financing costs through the BLRA, weather, and customer growth.

PSNC also saw increases for the quarter and the year due principally to customer growth and a rate increase in November of 2016.

SCANA Energy's earnings grew due to more favorable weather in 2016 versus 2015. Ignoring the impact of the net of tax gains on the sales of the two subsidiaries in 2015 and their respective foregone earnings, SCANA's Corporate and Other results were consistent with the prior year.

I would now like to touch on economic trends in our service territory on slide 6.

In 2016, companies announced plans to invest approximately \$1.8 billion, with the expectation of creating over 7,000 jobs in our Carolinas territories. The Carolinas continue to be seen as a favorable business environment and we are pleased by the continuous growth in our service areas.

At the bottom of this slide, you can see the South Carolina unemployment statistics as of December 2016 and 2015. Over the course of 2016, South Carolina's unemployment rate has dropped a remarkable 1.2% from its level at the end of 2015, and is currently at 4.3%.

December of 2016 marked an all-time high for the number of South Carolinians employed and the number in the labor force. Additionally, the absolute number of unemployed is the lowest it's been since April of 2001. Of particular interest and attesting to our state's strong economic growth, almost 70,000, or 3.3% more South Carolinians are working today than a year ago.

The expansion of the labor force is evidence of the confidence of some of the workforce to reenter the market and of the positive migration to the state of South Carolina. The other states in which we have service territories, North Carolina and Georgia, continue to see stable unemployment rates of 5.1% and 5.4%, respectively.

As depicted on slide 7, United Van Lines recently released its Annual Movers Study for 2016, which tracks migration patterns state to state. For the fifth consecutive year, South Carolina was a top-five state for inbound moving. According to the study, approximately 40% of these moves were related to jobs. Additionally, North Carolina has been listed in the top 10 for the last five years.

This study corroborates the customer growth which we have been seeing in our service territories over the past few years.

On Slide 8 we present customer growth and electric sales statistics. The top half of the slide shows the customer growth rate for each of our regulated businesses. SCE&G's electric business added customers at a year-over-year rate of 1.6%.

Our regulated gas businesses in North and South Carolina each added customers at a rate of 2.9%. As you can see, the rates trended fairly consistently throughout the year.

The bottom table outlines our actual and weather normalized kilowatt hour sales to retail customers for the 12 months ended December 31, 2016. Overall, weather normalized total retail sales were relatively flat on a 12-month-ended basis, as we had expected when we provided our 2016 guidance.

Now please look to slide 9, which recaps our regulatory rate base and returns.

The pie chart on the left presents the components of our regulated rate base of approximately \$11 billion. As denoted in the two shades of blue, approximately 86% of this rate base is related to the electric business.

In the block on the right, you will see SCE&G's base electric business, in which we are allowed a 10.25% return on equity. The adjusted earned return for the 12 months ended December 31, 2016, in the base electric business continues to meet our stated goal of earning a return of 9% or higher. This mitigates the need for non-BLRA-related base rate increases during the peak nuclear construction years. We continue to be pleased with the execution of our strategy.

Continuing down the page, on our new nuclear business, we were allowed an 11% return on equity under the Base Load Review Act for all Annual Requests for Revised Rates that were approved prior to 2016.

The approval of our 2015 Petition included a revision of this allowed ROE down to 10.5% for prospective Requests for Revised Rates, which applied to the request that went into effect at the end of November 2016.

Under the terms of our most recent order, the allowed ROE for the new nuclear business will be 10.25% for all prospective Requests for Revised Rates.

As a reminder, we are allowed a return on equity of 10.25% in our gas LDC in South Carolina. If the earned ROE of the gas business for the 12 months ending March 31st, falls outside a range of 50 basis points above or below the allowed ROE, we file to adjust rates under the Rate Stabilization Act.

As you will recall, in mid-2016, we received approval for an annual \$4.1 million revenue increase that was effective in November of 2016.

As you are also aware, we received approval from the North Carolina Utilities Commission for an annual \$19 million revenue increase at PSNC Energy. That increase was effective on November 1, 2016.

Slide 10 presents our CapEx forecast. This forecast has been updated to reflect the Company's CapEx projections through 2019. This forecast also reflects the estimate of new nuclear spending as derived using the Construction Milestone Payment Schedule approved by the Dispute Resolution Board in December 2016.

Although this information is the best available at this time, it is unlikely that the timing of these expenditures will occur exactly as presented.

At the bottom of the slide, we recap the estimated new nuclear CWIP from July 1 through June 30, to correspond to the periods on which the BLRA rate increases are historically calculated.

As you are aware, earlier this week Westinghouse shared revised in-service dates with us of April 2020 and December 2020, for Units 2 and 3, respectively. Westinghouse has

told us that it will provide the complete integrated project schedule supporting these dates to us for review.

The CapEx forecast on slide 10 has not been updated to reflect the impact of this revised project schedule. We will update the financial community on these changes after our review and evaluation have been completed.

Now please look to slide 11, to review our estimated financing plan through 2019. This plan has been updated to reflect the estimated timing of expenditures inherent in the Construction Milestone Payment Schedule, as well as the expected impact of the section 174 income tax deductions, which we discussed on a previous call.

The expected cash flows related to section 174 are presented in the table at the top of the slide. These amounts reflect the total amount of state and federal taxes that would have been paid, absent the 174 deduction treatment.

As a reminder, since early 2015, we have used open market purchases instead of issuing new shares to fulfill the needs of our 401(k) and DRIP plans. We currently estimate that we will not have incremental equity needs until 2018.

Again, it is unlikely that these debt and equity issuances will occur in the exact amounts or timing as presented, as they are subject to changes in our funding needs for the planned project expenses, and may change based upon the actual achievement of construction milestones, and after consideration of the new schedule information that we will be receiving from Westinghouse.

I would now like to discuss our 2017 earnings guidance and related assumptions on slide 12. Our 2017 GAAP-adjusted weather-normalized earnings guidance range is \$4.15 to \$4.35 per share, and our internal target is \$4.25 per share.

Due to the cyclical nature of our business, we expect to earn approximately 35% of this amount in the first quarter due to the demand in our gas and electric businesses, approximately 15% in the second quarter, and the remaining 50% being roughly split between the third and fourth quarters.

In developing this guidance, we have included the impact of electric rate increases from our new nuclear filings under the BLRA, the recent gas rate increases at SCE&G and PSNC, the impact of the 174 income tax deductions and the related estimated decrement rider, as well as our current views regarding electric average use and the economy.

This guidance also incorporates the CapEx and financing plans we presented earlier, but does not incorporate the new schedule information that we will be receiving from Westinghouse.

We forecast electric customer growth to be approximately 1.5%, offsetting our assumption that customer average use of electricity will be lower in 2017. Therefore, we

anticipate overall weather-normalized retail electric sales growth for 2017 to be relatively flat.

We expect consolidated operating and maintenance expenses to be approximately 4% higher in 2017, compared to 2016 actuals. However, due to an integrity management rider approved in the 2016 PSNC rate case and a pension expense rider at SCE&G, only about 1% of this amount will not be offset by incremental margins when compared to 2016's total O&M amount.

We also expect continued growth in the CapEx-related costs of property taxes, depreciation, and interest.

Additionally, we project an effective tax rate of approximately 31% for 2017.

In addition to providing this 2017 guidance, we are also resetting the base year for our long-term GAAP-adjusted weather-normalized annual growth guidance to 2016's GAAP-adjusted weather-normalized EPS of \$3.97 per share. So our new long-term GAAP-adjusted weather-normalized annual growth guidance target is to deliver 4% to 6% growth over the next three to five years, using this base of 2016 GAAP-adjusted weather-normalized EPS of \$3.97 per share.

Hopefully, this will provide you with a line of sight into our view of 2017 and beyond as you update your models.

Now please turn to slide 13. Earlier today, we announced an increase of \$0.15 in our annual dividend rate for 2017, to \$2.45 per share, a 6.5% increase, which is consistent with our prior commitment to grow dividends generally consistently with long-term earnings growth.

Our Board of Directors also approved an increase in the upper band of our payout ratio from 60% to 65%. We continue to anticipate growing dividends fairly consistently with earnings.

I'll now turn the call over to Steve to provide an update on our nuclear project.

Steve Byrne: Thanks, Jimmy. I would first like to note that Westinghouse no longer has any modules, either structural or mechanical, left at the CB&I-Lake Charles facility. Everything has either been completed, moved to another fabricator, or is being completed at the VC Summer site.

On a non-construction note, we now have 22 operators for the new units, who have passed all portions of their Nuclear Regulatory Commission license exam, a process that takes several years. We anticipate having over 40 licensed operators prior to fuel load.

Moving on to some of the activities at the new nuclear construction site, slide 14 presents an aerial photo of the construction tabletop from December of 2016. I have labeled both

Units 2 and 3, as well as many other areas of the construction site, to give you a general layout of the area.

If you look closely in front of the module assembly building, which is labeled MAB, you can see structural module CA-01 attached to the heavy lift derrick, or HLD. At the time of the photo, we were preparing to place it in the Unit 3 containment vessel.

Slide 15 presents a schematic view of the five large structural or CA modules that are located inside the containment vessel. We have placed all of the major CA modules for Unit 2.

We have previously placed CA-04, 05 for Unit 3, and more recently placed CA-01. We'll discuss that more shortly.

I'm pleased to say that all sub-modules for the remaining Unit 3 structural modules are on site.

Slide 16 shows an aerial view of the Unit 2 nuclear island and containment vessel. Looking down into the containment vessel, you can see the first ring section and most of the previously mentioned structural modules, as well as the steam generator which was placed in January.

Outside of the containment vessel, you can see Auxiliary Building module CA-20 and the shield building, which surrounds the containment vessel.

At the top left of the slide you can see the containment vessel ring 2, before it was placed on top of the first ring section last weekend.

Slide 17 shows pictures of the placement of the first of two steam generators for Unit 2, which took place last month. This steam generator weighs approximately 1.5 million pounds, measures 20 feet in diameter, and is more than 80 feet long. Steam generators transfer heat from the reactor to convert water into steam needed to spin the turbine.

Slide 18 shows pictures of the placement of the containment vessel ring 2 for Unit 2, which, as I previously mentioned, was placed this past Saturday. This component was fabricated on site and is approximately 50-foot tall, 130-foot in diameter, and weighs over two million pounds.

There's one more ring section to be placed for the containment vessel before capping it off with the upper bowl.

Slide 19 shows an aerial view of the Unit 3 Nuclear Island. You can see the CA-01, CA-05, and CA-20 structural modules. CA-04 also has been placed, but is not visible in this picture.

Slide 20 shows the placement of the aforementioned Unit 3 CA-01. This super module was placed in the nuclear island in December of 2016, and will house the steam generators and the pressurizer, as well as form the refueling canal inside of the containment vessel.

Slide 21 is a photo of the Unit 2 nuclear island where you can see the shield building panels being placed.

We are currently working on the fifth course of panels and have 143 of the 167 panels needed to complete the Unit 2 shield building.

Slide 22 shows the placement of the first shield building course for Unit 3. The panels for this course have been welded together and have been filled with concrete. We currently have 78 of the needed 167 panels for the Unit 3 shield building.

Slide 23 presents the Unit 3 module CA-02. CA-02 is a wall section that forms part of the in-containment refueling water storage tank. All of the sub-modules have been upended and welding is complete for this module.

Slide 24 is a photo of the Unit 3 CA-03, which is the west wall of the in-containment refueling water storage tank. Ten of the 17 needed sub-modules have been upended for fabrication in the MAB, and the remaining 7 sub-modules are onsite.

Slide 25 shows one of the accumulator tanks for Unit 2 that was set inside of the nuclear island in December of 2016. There are two accumulator tanks for each unit and both of these tanks for Unit 2 have been set in place. They are used to inject borated water in order to rapidly re-establish core cooling and are a part of the passive safety systems.

Slide 26 shows pictures of the Unit 3, comparing December of 2015 to last month. As you can see, we've made significant progress in just under 14 months.

Slide 27 is the Unit 2 Turbine Building where good progress is being made. Visible at the top middle is the yellow overhead bridge crane which was recently placed, and we are now setting roof trusses.

Slide 28 is the lower half outer shell for one of the low pressure turbines. There are six of these per unit and all six have been placed for Unit 2.

Slide 29 shows a picture of the Sanmen plant in China. We have had our personnel involved in hot functional testing at Sanmen Unit 1, and we've gained valuable experience.

Additionally we have recently participated in startup readiness inspections at the Haiyang Unit 1. We anticipate startup and operation of both of these units this year.

This completes my update on construction. I'll now turn the call over the Kevin to discuss the situation with Toshiba.

Kevin Marsh: Thanks Steve. I would like to direct your attention to slide 30. We continue to monitor Toshiba's financial situation and their proposed recovery plans.

Although ideally Toshiba would be without these stresses, we still anticipate completing our two new nuclear units, which will enable us to provide our customers with safe, reliable energy for decades to come.

As previously mentioned in our press release, Westinghouse officials told us earlier this week that they, along with Toshiba, remain committed to completing the construction of these units.

As Jimmy mentioned earlier, we also received new in-service dates from Westinghouse, and we will be reviewing the corresponding integrated project schedule supporting these dates once they provide it to us.

After our review and once we've completed our evaluation, we will make you aware of any changes or implications this information may have. This would most likely take place during our first quarter 2017 earnings call.

While we are pleased that Westinghouse and Toshiba have reaffirmed their commitment to completing the project, we continue to look for ways to mitigate project risk for our customers and shareholders.

If for any reason, Westinghouse exits the project, we will evaluate the facts and circumstances at that time to determine the most prudent action for our Company and customers. However, we have initiated steps, as identified in our original EPC contract, to assist in the orderly transition to a new construction team and assist in the continuation of construction activities, if necessary.

In December of 2015, Toshiba's credit ratings slipped into speculative grade, which triggered a provision in our contract requiring Westinghouse to establish a surety bond in the form of a letter of credit, which can range up to \$100 million.

Additionally, we initiated a contractual process to escrow intellectual property and software for the AP1000 design. Should it become necessary, having access to the AP1000 design and software, and the ability to call on the letter of credit, would assist with a transition to a new construction team.

Under this scenario, we could evaluate options of serving as the general contractor, entering into a new EPC contract for the remainder of the construction, or entering into a procurement and construction contract and supply the engineering support ourselves or through a third-party engineering firm.

As of the end of 2016, all major equipment has been procured, received onsite, or is in fabrication.

Additionally, our amended EPC contract requires Westinghouse to begin paying liquidated damages to SCE&G and our project partner Santee Cooper, that cap out at \$676 million based on if the construction goes beyond August 2019 and August 2020, guaranteed substantial completion dates for the new units in our current EPC agreement.

As you can see from Steve's update, we are making substantial progress on these new plants and remain focused on continued progress toward their completion.

Again we will continue to monitor this situation closely and will alert you if we are made aware of any changes.

That concludes our prepared remarks, and we'll now be glad to respond to any questions you might have.

Questions and Answers

Operator: Thank you. We will now begin the question-and-answer session. (Operator Instructions) At this time, we will pause momentarily to assemble our roster. Julien Dumoulin-Smith with UBS.

Julien Dumoulin-Smith: So I wanted just to follow up a little bit a lot of -- I imagine a lot of questions here around it.

But first, just a little bit of an update on worker productivity to the extent to which you have a sense.

Given the new timelines released, obviously, recently what's your level of confidence against these timelines, particularly given some of the risks around further delay on the second unit? Do you have any sense on that?

Steve Byrne: Julien, this is Steve. When you say the second unit, you talking about the second new unit or are you talking about Unit 2, which is the first new unit?

Julien Dumoulin-Smith: Sorry. Yes, the second new unit and the --

Steve Byrne: Second new unit.

Julien Dumoulin-Smith: -- 2020 deadline.

Steve Byrne: Yes. So what we've seen so far is that the efficiency factors have increased significantly on Unit 3, our second new unit. In some cases it's a matter of hours, in other cases, it's double or triple the efficiency factor for the second unit.

So we're learning the lessons from the first unit and applying them to the second unit, and it's going much, much more smoothly. So I have a reasonable confidence in the efficiency gains for the second new unit.

What we're dealing with the schedule now is we're taking the assumptions that Westinghouse took in their schedule that they gave to us when they gave us the new dates on Tuesday, and we're evaluating what those assumptions are and what kind of efficiency numbers are in there.

We do think that they have to increase their performance level, increase the efficiency factors, and they've got some plans laid out to do that. So we're going to be very interested to see it.

As Kevin pointed out, we're going to be going through that schedule over the next month or so, and we ought to be able to report out our level of confidence in that probably at the next quarterly call.

Julien Dumoulin-Smith: Got it. And to be clear about what we should expect at the time of the next quarterly call relative to what you've reflected today, largely, the increase, as far as you're concern, is a capital cost increase, correct? Related to capitalizing interest and --

Steve Byrne: When you say increase, which increase are you discussing?

Julien Dumoulin-Smith: Just simply the delay in the project itself should have some capitalized interest and equity costs that you would bake into the project cost, I would imagine.

And maybe, actually to be very clear about this. I think previously you guys have talked about a \$10 million a month, I think perhaps per unit cost.

Steve Byrne: Yes. Julien, I think you're talking about what we would call the owner's costs, which were not necessarily carrying costs.

What we're talking about is the amount of staff and the expenses that we have to accrue each month, things like increased insurance, NRC fees, that kind of thing.

But the bulk of it is going to be carrying the staff that we have to carry. So if what we're talking about is the short delays that we announced, I think it was Tuesday or yesterday relative to the schedule information that we got from Westinghouse, we're looking at numbers along the lines of on a 100% basis, about \$12.5 million per unit in what we would call our ongoing owner's costs.

And, of course, those would be offset by liquidated damages, which would start to accrue when they don't hit the existing guaranteed substantial completion dates of August of 2019 and August of 2020.

So on a macro scale, we think that as long as they can complete them in a timeframes that they've laid out, our incremental owner's costs should be more or less offset by the liquidated damages.

Julien Dumoulin-Smith: Right. So barring a change in how Westinghouse and Toshiba decide to move forward, there actually really isn't effectively a change for consumers as far as their realized rates are concerned?

Steve Byrne: Yes, we see very little change there.

Julien Dumoulin-Smith: Excellent. Thank you. I'll let someone else ask.

Steve Byrne: And, Julien, just to be clear, I think the \$10 million a month that you were talking about earlier that we previously referenced was more than likely our 55% share of the costs going back probably a year ago.

So the costs have increased a little bit. And what I gave you recently was the 100% cost numbers.

Julien Dumoulin-Smith: Excellent. Thank you.

Operator: Travis Miller with Morningstar.

Travis Miller: I've got one non-nuclear question, then one nuclear one. I'll start with the non-nuclear one.

What electric customer or usage growth do you guys have to hit over the next two years, call it 2017, 2018, to hit that 9% earned ROE that you're targeting?

Jimmy Addison: Travis, this is Jimmy. Specifically for 2017, it's basically a wash in our plan between the addition of new customers as well as kind of the loss of margin from all customers, just due to efficiency working through the system. I don't have a specific target in there for 2018, but generally at that same level.

Travis Miller: Is that a net zero percent --

Jimmy Addison: Yes.

Travis Miller: -- growth?

Jimmy Addison: Yes. It's not precisely zero, but it's very close to -- it's relatively flat.

Travis Miller: So that would be investing about at a maintenance-type level ex-nuclear, so the ROE stays about the same?

Jimmy Addison: Ask that again. Let me make sure I'm following that part.

Travis Miller: So that that would be investing at essentially a maintenance-type level, non-nuclear, so that rate base stays very similar to what -- ?

Jimmy Addison: Yes. You see in our CapEx plan we've got in the SCE&G business, which includes SCE&G gas, we've got about for \$400 million a year, \$466 million at the peak in 2019. And generally, that is going -- and the electric side is going to be matched against the D&A that's occurring on a book basis. So no significant change in rate base.

Travis Miller: Yes, okay. Got that. And then walk me through a worst-case scenario on the nuclear side might look like if you were to get to some kind of stranded cost-type situation.

Kevin Marsh: Hey, Travis. This is Kevin. Let me take a stab at that. First of all, it's difficult to speculate on exactly what the status of construction would look like if Westinghouse were to exit the project.

If that were to happen, I would expect that SCE&G, along with our partner Santee Cooper, would go through a thorough assessment of the facts and circumstances at that time and make some decisions around what options we thought might be appropriate, and then certainly engage the Office of Regulatory Staff and the Commission to determine the most prudent path forward.

But in terms of what that construction could look like, first of all, we've begun escrowing the AP1000 intellectual property and software to make sure we've got access to the design if we were going to be responsible for continuing with the project.

We got the surety bond in the form of standby letters of credit in place to make sure we've got some liquidity to help us make an orderly transition to a new construction team.

But with the construction team specifically, we could make a decision to serve as the general contractor. We could look at entering into a new EPC contract, or we could look to find someone just to do the procurement and construction.

So we would certainly consider all those. I kind of look at the last case option, the abandonment provisions under the BLRA. That's not something that's high on our list. We would certainly like to finish these products. They're critical to us over the long term and meeting customers' needs and the growth we expect to see in the state of South Carolina over the long term.

And even though Mr. Trump has talked about changing some of the rules that might be in effect on clean-air regulation, I believe people will continue to be focused on clean air and as much carbon-free emissions as we can.

So we're sticking with our strategy, and these plants are critical to do that.

So we'd have to evaluate the circumstances very carefully and then figure the most prudent path forward.

Travis Miller: Okay. That's very helpful. And then the abandonment clause in the BLRA, you feel confident that given this type of situation that's happened, it would still be valid, is that right?

Kevin Marsh: Well, I mean, certainly it's never been exercised. The Base Load Review Act's been implemented for the time with the construction of our projects. But the intent when that was written by the parties that drafted and approved it, was to make sure if something happened that was outside of the ordinary course of business, if some unusual circumstance would arise, then investors would not be stranded in that investment.

But what it assumes is, there's a very thorough evaluation done, and that our Company, along with the Commission and Office of Regulator Staff, would deem that to be the most prudent course of action.

We're not advocating that. We're not saying we're at that point. But it is one of those items that is on the list if you go through the evaluation, should Westinghouse decide to exit the project.

But what we know at this point is Westinghouse and Toshiba have reaffirmed their commitment to finish the project. I think the presentations that Toshiba has made indicate they recognize that's their obligation and are taking steps to try to shore up their balance sheet to be able to fulfill that.

They were clear in their discussions with us earlier this week that they intend to finish the project. They're in the process of reviewing that schedule with us now.

So they're taking the steps to indicate they're going to back up their commitment. So we're banking on that. But certainly, we're going to watch the developments very carefully as we go forward.

Travis Miller: Great. Thanks so much. I really appreciate the details.

Operator: Stephen Byrd of Morgan Stanley.

Stephen Byrd: Wanted to discuss the abandonment provision of the BLRA. If the issues with the budget and the cost overruns are really driven by nothing changing to the, I guess the license reactor design, but rather just sort of more ordinary course scheduling issues, overruns, and also the fact that Toshiba may not be able to sort of meet its financial obligations, is that, under the abandonment provision, is that a sort of cause for being able to get recovery for the money spent to date?

Kevin Marsh: This is Kevin. The provision is not specific as to exactly what it would cover. There was not an effort to make a listing of the types of items that would qualify.

It's more specifically focused on what would be deemed prudent at the time that decision was made. And that clearly means in the regulatory space that there would have to be a meeting of the minds and a serious evaluation of where the project is, what it might cost to complete, and then jointly and make that decision as to the most prudent action.

It would be extremely difficult not knowing all the facts and circumstances, to try to list what would or would not qualify under that provision.

And generally, prudence is the rule that the Commission banks on at the end of the day.

Stephen Byrd: Okay. Understood. And Toshiba had laid out, I think a little over \$6 billion charge.

Do you have a sense for where the budget is at the moment for the project overall? I know from your perspective you have protection under your EPC contract. But do you have a sense for where the budget estimate is based on your conversations with Toshiba and Westinghouse?

Steve Byrne: This is Steve. I'm not sure that we have a handle yet on what the budget estimate is. Of course, we're focused on them performing now under a construction milestone payment schedule. So they hit a milestone, then they get paid.

What we don't have is some of the details around what kind of contingencies that they have in the impairment that they announced. So that's something that we would not have direct line of sight over.

So I couldn't give you an exact budget. If you're talking about the Westinghouse portion of the budget, you might have to ask them. But from our perspective, we're focusing on the construction milestone payment schedule, and then from June of 2015, we had about \$6.082 billion to go.

Stephen Byrd: Okay, understood.

Jimmy Addison: This is Jimmy. Just to supplement, they have represented to us, obviously, that covers all of their U.S. projects, ours and those in Georgia. And they have represented to us that, as Steve alluded to, that it does include contingencies and reserves, we're just not sure of the levels of those, et cetera.

Stephen Byrd: Okay, understood. And lastly, just quickly on Sanmen, you laid out the status update here. I think the prior update was that Sanmen was going to be operational in 2016.

Do you have a sense for the cause for the delay into 2017?

Steve Byrne: I'm not sure I have a direct line of sight on all of the causes. I know when they went through the hot functional testing, they discovered a few things. So they've got a couple of equipment issues that they have to rectify. But I don't see those as large holdups.

And, for example, we made available some bolts that they needed for one valve that they asked us for this month. So it's something we don't need until 2017, for our trailing unit, so we're glad -- sorry -- until 2018 for our trailing unit, so we are glad to give it to them.

But we fully anticipate that they'll load fuel shortly. They'll start up this year.

Stephen Byrd: Okay. Thank you very much.

Operator: Kamal Patel with Wells Fargo.

Kamal Patel: Had two questions, one regarding the progress [VC] Summer. Where do you stand? Do you still stand in a position where you've made advances or are you not [very aware] and you're not making advanced payments anymore? Are they [cut off]?

Steve Byrne: On the construction milestone payment schedule are you talking about, Kamal?

Kamal Patel: Yes.

Steve Byrne: Yes. We received an order from the Dispute Resolution Board late last year. And as of December, we are now making payments strictly under that construction milestone payment schedule.

So we don't have any catch-up payments to make, if that's what you asked.

Kamal Patel: Okay. And there's no reverse catch-up work that Westinghouse owes to you under that payment schedule?

Steve Byrne: No.

Kamal Patel: Okay. Second schedule, there's plenty of other what-ifs on the Summer. But with regard to the dividend increase, it's above what you did last year. And I'm wondering what the premise was behind bumping it up above what we saw last year, given the headlines that we're seeing around the project itself.

Jimmy Addison: Yes, it's really being consistent and transparent with what we've said before, which is we're committed at this point to growing it fairly consistent with earnings. And you've seen an increase in earnings projected for 2017, that's actually slightly above the dividend increase. So that was the consideration.

Kamal Patel: Okay. All right. Thanks.

Operator: Michael Lapides with Goldman Sachs.

Michael Lapides: I guess one question for Kevin. You talked a little bit about the letters of credit. But can you quantify just how much has been set aside?

And did I hear correctly that the maximum is around \$100 million or the letters of credit and the postings that Toshiba and Westinghouse make, could that be a bigger number to help do the bridge in case there's a switch in contractors?

Kevin Marsh: No. Under the contract, there is a formula we go through based on previous months' construction totals. And we have in place now the \$45 million. The max under that formula is around \$100 million. So that is formulated in the contract we have in place today and don't have any expected changes in that as of today.

Michael Lapides: Got it. Okay. And the other thing is, what is the timeline? When do you need to get the projects put in service?

And we saw the detail in the BLRA filing earlier this week about the potential change in schedule.

When do you have to get them in service to ensure you qualify both for the production tax credits and for bonus depreciation? And does that date differ for either of those?

Steve Byrne: Well, Michael, this is Steve. For the production tax credit basis, we have to have them operating by 2021.

Jimmy Addison: And generally it's the same for bonus. But recall that with the 174 strategy, that really neutralizes a great deal of the bonus advantage. So that's taking it even in advance of bonus.

Michael Lapides: Okay. So in the situation, they're already pushing Unit 3 out, assuming be schedule they submitted holds and what's in the BLRA filing, assuming Unit 3 is December 2020, if that pushes out another couple of months, sometime between now and then, it's conceivable that unit wouldn't qualify for PTC?

Steve Byrne: That possibility exists. There are a couple things that are yet undefined relative to -- or untested relative to qualification for production tax credits.

One is, what is the definition of in service, because certainly we'll be making some power from those units prior to declaring it in service.

So if making power qualifies, then we'll be ahead of those dates. So that just gives us a little bit more room, probably on the order of two months.

The other thing that we're looking forward to is the opportunity to see if we can get an extension on the date for the production tax credit qualification, because all of the basic tenets around the establishment of what those production tax credits are there to do still exist for both our project and for the Southern Company project.

Kevin Marsh: And, Michael, this is Kevin. I'll add one piece to that. I certainly can't speak for Westinghouse and Toshiba, but I am comfortable repeating what we saw in the translation of their Q&A after they did their preliminary release the other day.

And in their comments, they were asked about the loss and how that attributed to the efficiency of the schedule work that was being (inaudible) work that was being done at the plant site.

And what they said in that release and my words was, that PWC was very conservative in looking at that schedule calculation and that they would not allow them to include in that any projected improvements in productivity.

So I would assume from that, that the schedule they've got is based on current productivity rates, which we know from discussions we've had in the past have not been ideal. It's been a primary area of focus for them. Fluor has been on site for a year now, and I believe they've identified opportunities for improvement.

So to the extent they can find those improvements, I would expect that to improve their overall schedule and possibly give us more comfort around those dates. Certainly, that December date for 2020, is pushing up against a deadline.

But I just wanted to pass those comments on from the Toshiba executives' feedback to those questions in Japan earlier this week.

Michael Lapedes: Got it. And one final, just actually on the core business on the gas side, should we expect you come in to the regulators and ask for incremental gas revenue increases at SCE&G over the next year, year and a half or so, just given the earned ROE levels?

And do you anticipate kind of every other year or so rate case filing on the PSNC side?

Jimmy Addison: Yes, Michael. On South Carolina, really, we don't have a litigated hearing. We've got a process that just measures at the end of March of each year, and if we're over or under 50 basis points, there's an adjustment. Those are usually very small. We had one this year that was about 1%.

So we don't have anything in our plan right now for one this coming fall in November 2017. But really, the results at the end of the heating season will help determine that.

And on PSNC, we think we're generally in the three or so year, three to four year time frame for rate cases in that environment, with the rapid expansion that's there now.

And if you'll note, our CapEx forecast over the next three years compared to the current rate base, we're looking at CapEx additions of about 75% of the existing rate base in that business over the next three years.

However, about half of that is covered in new revenues, either through the integrity management rider or through direct industrial contracts. So that helps mitigate the need for frequency of kind of general rate increases in North Carolina.

Michael Lapedes: Got it, guys. Thank you, all. Much appreciated.

Operator: Andy Levi with Avon Capital Advisors.

Andy Levi: Just to understand just a few nuclear questions. Just on the fixed cost contract, is it kind of focused more on productivity as far as what covers you? Do you understand what I'm saying?

Steve Byrne: The fixed price option, we looked at productivity when we were renegotiating the contract and really wanted to take that out of the equation. So the fixed price option really affords us the protections and gives us what the price is going forward, almost irregardless of the productivity, such that if they don't improve the productivity numbers, then they're hurting themselves from that perspective.

Andy Levi: Right. Right.

Steve Byrne: And I think we talked about it a little earlier, the real downside liability for us might be our owner's costs should there be an extension of the schedule.

And as of right now, we think that the liquidated damages would about offset what those owner's costs are anticipated to be.

But the fixed price option really was from June of 2015, when we started the discussions or when we had the last good information when we started the discussions.

From that point to the end of the project, they gave us a fixed price, which was \$6.082 billion. So that was the to-go price. But really that was the price irregardless of the efficiencies. Now we are very interested in seeing them make improvements in the efficiencies. Certainly, Fluor has done a number of things to improve the efficiencies. But they've certainly got plans to improve it even more going forward.

Andy Levi: Now, if there are design issues that the NRC has concerns with, is that covered under this fixed price contract or not?

Steve Byrne: Yes, in the fixed price contract, if it's a change in regulation, they would then be entitled to submit a change order. One of the things we worked very hard at was

ironing out the definition of change in regulation. So it now has to be a written change in the law or the regulation. So it can't be anything about interpretational things.

But if it's a basic tenet of the design that the NRC just doesn't think they're living up to, that alone would not qualify for a change order.

Andy Levi: So just as an example, there was an article on Monday, I'm sure you read it, about the neutron shield block.

Steve Byrne: Yes.

Andy Levi: And that there are design issues. I don't know if I'm saying it right. But that there are some hearings, I guess, going on at the NRC, as one example.

What would that fall under if there was increased cost or there was -- it had to be -- I'm not smart enough. But not redesigned, but you understand what I'm saying.

Steve Byrne: Sure. So that's an issue where there has been no change in the law or the regulation. So Westinghouse would be obligated to make the changes to conform that shield block without passing along any increased cost to us.

So that's a thing that they found during the hot functional testing at Sanmen, and it's an issue of the neutron shield block there, the material it was made of was getting too hot under the ambient conditions.

So what they had to do it is they just have to redesign it to use a different material, which they've already done. So that one really is not as big a deal as it has been made out in the press, I don't believe.

Andy Levi: Okay. So basically, if the design just wasn't constructed properly, they're on the hook for it. It's only if there needs to be some change in design because of some regulatory change in thinking, I guess, for no better way to put it? Is that kind of the way to think about it?

Steve Byrne: Well, not just a change in thinking, Andy, it has to be a written change in the law.

Andy Levi: Written change. Are there other hearings going on at the NRC as far as other design issues going on currently?

Steve Byrne: There are meetings on design issues going on at the NRC all the time. I'm not aware currently of anything that is looking like a change in the law or the regulation that would force a change that we would be responsible to pay for.

Andy Levi: Okay. And just two more quick questions. I know like with Southern Company, their letter of credit expires every year and then it has to be renewed and

there's certain provisions around what happens if the banks decide to pull that letter of credit.

Is that similar as your letter? Again, it's much smaller, your letter of credit. But is that similar with you guys?

Jimmy Addison: It's an annual letter, but it has an auto renewal that runs through late 2020.

Andy Levi: Okay. And whose choice is it to terminate that letter of credit every year, is it yours or is it the bank's or both?

Jimmy Addison: The banks could choose to do it, but they've got to give 60 days notice, and we have the right to draw on it immediately at that time.

Andy Levi: That's an interesting provision. And then my last question is, in a bankruptcy situation for Toshiba, do you just become another creditor or do you have some type of [senior] status?

Kevin Marsh: I'm not the lawyer. This is Kevin. But through our investigation, there are just a lot of different scenarios under which that can take place, and it's difficult for us to speculate without knowing all those individual facts and circumstances.

But we continue to watch that closely. And if we believed they were headed in that direction, we would take whatever steps we felt were appropriate to protect our project and the customers.

Andy Levi: And then I guess in that scenario if Westinghouse would default or would not be able to complete the project, you'd have to find not only another contractor, but another engineer, right, because that's really what Westinghouse is doing? Or you would do the engineering yourself?

Steve Byrne: Yes, Andy, there are options there. Certainly, we could do the engineering ourselves. We could go out and get another EPC contractor. The E in EPC is engineering.

Other options are similar to what we did when we did VC Summer Unit Number 1. We acted as a general contractor, had one company do the construction and we actually brought in another company to do the engineering.

So there are a variety of options out there that are different models in the marketplace, and all of them have worked.

Andy Levi: Okay. That's great. And then I assume the NRC takes part in that too, and kind of gives you a blessing on that?

Steve Byrne: NRC is not necessarily in a position or responsible for giving us a blessing on who is the constructor.

Andy Levi: Okay.

Steve Byrne: Obviously, the NRC holds us accountable for the construction and the quality.

Andy Levi: Okay. Great. Thank you. And I'm sorry for the difficult questions.

Operator: Thank you, sir. Ashar Khan of Verition.

Ashar Khan: Can I just ask you -- one thing that came out, if you can help me a little bit, because you could probably understand the slides that Toshiba put out two days ago.

So they said the biggest change came from labor and they said it was -- what they had included in labor was just not what they believed the labor costs are, it's just a humongous number. You probably saw that slides too, your team.

Could you just tell me what went wrong from your point of view, in terms of their calculation of those labor costs which were exponentially higher than what they thought to be?

And I just wanted to get -- I don't know if you can provide some color from on that component of it.

Steve Byrne: Ashar, this is Steve. We don't know exactly what is in all of their numbers. And sometimes in the presentation from Toshiba, they kind of lump things into a couple of broad categories, so there may be some bleed over in different categories.

But I can tell you what they have sort of informed us about at the Westinghouse level on the labor piece.

One, they are going to have to hire more people to do the work. And then, secondly, where they have made some assumptions around what they would call unit rates or how many hours it takes for people to perform a specific task, those unit rates are increasing.

So, for example, if they would say it'll take five hours to pour a cubic yard of concrete, what they're finding is maybe it takes seven hours to pour a cubic yard of concrete.

So for every cubic yard of concrete, and there's a lot of concrete, if it takes two more hours, then you're getting a significant number of hours increase, which, from their perspective, is increasing cost.

The other impact is what they've communicated is that when they acquired Stone and Webster, they made some assumptions about improving efficiencies to the tune of about 30% improvement.

And what we heard Toshiba say publicly during their call was that they have not seen those improvements.

And as Kevin pointed out, Toshiba went on further to say that the scheduling information, the cost information that they put out, they have assumed no further improvements in that, although they are pursuing improvements.

So it may have been an issue with the auditor, but they're not putting in the [banked-upon] improvements in the cost numbers that they put out.

Ashar Khan: Okay. So then can I just ask the process, so they will come in and give you some new backup to the new dates that they've given, right?

I'm assuming that backup you will study with Fluor or Fluor has already blessed that thing or what? So I was trying to see the decision making process, who will be involved? Is it going to be your, the SCANA to say, hey, this is right, not right, or who's going to be part of that decision-making process to whether that schedule is correct or not correct?

Steve Byrne: Yes. So the schedule information that we've received so far has come from Westinghouse. They built that schedule with inputs from Fluor.

So what we would look to do is we would look at both aspects. We would look at the assumptions that Fluor made around things like unit rates, labor hours, labor cost.

We would also then look at how Westinghouse has integrated all of that information into the schedule.

And the last piece is, they've been performing density studies. And with a plant, even a big plant like we're building, there are limitations on how many people you can get into a specific area.

So it's not as simple as understanding that a task now takes 100 hours, if I put 100 people in there, I should get it done in an hour. If the room won't fit 100 people, then you cannot assume an hour.

So we're going to be looking at all of those factors. We'll be looking at it in conjunction with Westinghouse and Fluor. And we will have our folks doing it and then we will more than likely bring in some outside or independent help, and we'll be looking at it in conjunction with our partner, Santee Cooper.

Ashar Khan: Okay. So you will bring some outside help. Okay. I just wanted to kind of -- okay.

And then if I can change track a little bit. Jimmy, this is on the financial results, and I don't know if the slides that you provided us in terms of CWIP and spending, this is the best information that we know right now, of course. Let's hope it comes up pretty close to what it is.

Because your earnings are very formulaic because of the BLRA mechanism, you know, you go in, you get something accepted, it falls into place, you start collecting revenues, it's a very formulaic kind of earnings, you know, you put in the number and the earnings spit out.

So based on the incremental CWIP that you have produced in today's slides, doesn't the earnings and the math provide for earnings growth which would exceed the 4% to 6% range in the next couple of years, just from the math of the CWIP that you have provided?

I mean, that's what the math tells me. I just want to find out whether I'm thinking through that correctly or there is some big hole in the whole assumption.

Jimmy Addison: Our view of the long-term guidance is that it's a view of the CAGR over a three- to five-year period. Any one period might fall outside of that range.

I mean, on the surface of the math for 2017, you have done the math, you can tell that it's slightly above that range. But we're giving you separate guidance for 2017, of \$4.25, with a \$0.10 [band] on each side.

We're giving you a three- to five-year CAGR that we believe falls within that band.

Ashar Khan: Okay. So you can have years where it can exceed it, right? I'm more talking about 2018, and onwards, right?

So what you're saying is, you want to keep the CAGR on a long-term basis, but there could be years where the earnings growth could be higher than what is implied in the CAGR. Am I --

Jimmy Addison: Exactly.

Ashar Khan: -- correct?

Jimmy Addison: You are correct.

Ashar Khan: Okay. Thank you so much and have a nice evening.

Operator: (Operator Instructions) [Chris Melendes] with Wellington Management.

Chris Melendes: Could you tell me specifically what measures Fluor and Westinghouse can take in order to improve efficiency, and your view on their ability to execute on that? Thank you.

Steve Byrne: Yes, Chris, this is Steve. Work packages is one thing. They have been working for some time on improving work packages to make sure that folks that go to the field have what they need and they don't have to stop every time they run into a roadblock. So almost since Fluor took over, they've been working on improving the work packages.

Secondly is, we've hired a lot of folks in the last year. I think Fluor has brought in 1,200, 1,300 incremental over the beginning of the year.

But what we're focusing on now is ensuring that we bring in the right resources. So if I need welders, it doesn't do me any good to bring in fitters, for example. So that's another thing that they're doing.

We're looking at the possibility of changing the requirements on the secondary side of the plant or the turbine island side of the plant, as opposed to the nuclear island or the nuclear side of the plant.

So if I have requirements that are quality requirements that are nuclear grade, I don't necessarily have to apply those same standards to the turbine island or turbine building side.

And to date, the contractors have been applying sort of the same standard across the site. So one of the things that they can do is they can change what the standards would be.

So there's no reason for me to build a nuclear grade turbine building, for example. I need a fossil grade turbine building because it's the same.

And then lastly, one of the things they can do to improve efficiencies is increase their nuclear expertise in the leadership team, particularly where the critical path runs.

And right now, for both units, that's on the nuclear island side. So Westinghouse is going to focus on increasing their leadership team, their nuclear background, particularly on the nuclear island. So that's the containment vessel, the shield building, annex building, auxiliary building.

And heretofore, we've had a lot of folks with a lot of good construction experience, but a little light on nuclear experience. So those changes are taking place now.

Chris Melendes: Okay. It doesn't sound like any of this stuff is insurmountable. It sounds like blocking and tackling.

So am I correct in assuming that you guys feel like efficiency improvements are readily achievable?

Steve Byrne: Yes. I think the improvements that they've laid out to us are certainly achievable. Now, they've got to go out and get the expertise that they're talking about. I know they're at it right now. They're looking at all kinds of options, and we are encouraging to include all kinds of options, including the possibility that we'll have Toshiba resources on the site.

So perhaps folks from Japan that are actually doing work in the field particularly on the trailing unit. So we're welcoming all of those changes.

Chris Melendes: Okay. Thanks for the time.

Operator: Dan Jenkins with the State of Wisconsin Investment Board.

Dan Jenkins: So going back to the critical path, I notice on your release on page 7, of the latest quarterly report, you lay out kind up what the current critical path items are.

But I was wondering if you could give us like what the timeframe is for those items, like the -- are those -- what's the date for those items to be completed?

Steve Byrne: Dan, for each unit, we run generally a primary, a secondary, and a tertiary critical path. It's a series of activities that will culminate in finishing the units.

And as an example, when we were talking a year ago, probably even six months ago, the critical path for first unit, Unit 2, was the shield building activity. So that was all of the activities, procurement of shield building panels, delivery, installing them, filling them with concrete, and then moving incrementally up in the shield building.

The shield building has now moved off critical path and that now runs through activities inside of the containment building.

So the focus is really shifting more towards what we think it ought to be. So when we say the focus for Unit 2 has shifted into the containment vessel or the containment building, what we're talking about is things like setting of steam generators, reactor vessel, reactor [coolant] piping, the pressurizer, all of the things that you would say form the heart and soul of a nuclear plant.

So that's what we mean when we say that the critical path has shifted to containment.

With regard to specific activities coming up and completing, I think you probably saw that we recently completed setting of the reactor vessel. We set the steam generator, one of two steam generators for Unit 2. We set the second ring section for Unit 2. We should set the third ring section for Unit 2, we think in early second quarter.

Number of activities, mostly focus on Unit 2. But the next steam generator for Unit 2. So there's two per unit. We set one. We should set the other one in the second quarter, and the pressurizer should go in, in the third quarter.

So there are a lot of big picture activities taking place yet this year in the next couple of quarters, particularly around Unit Number 2.

Dan Jenkins: Okay. So a lot of key items coming up before midyear, it sounds like then.

Steve Byrne: Yes.

Dan Jenkins: Going back to your financing plan, I was wondering if you can give a little more detail on the timing you expect for 2017, for the financing.

Jimmy Addison: Yes. Dan, this is Jimmy. So we've got estimated around \$800 million there at SCE&G in debt to do this year. And I would expect that probably more than half of that we would do before the middle of the year. So sometime in late Q1 or Q2, we will probably do \$500 million or so of that \$800 million, and the balance late in the year.

Dan Jenkins: Okay. That's all I had. Thank you.

Operator: Vedula Murti of BlueCrest Capital.

Vedula Murti: Couple things. One, under the BLRA structure and everything like that, I know you guys are sensitive, obviously, to the rate of revenue increases and things of that nature.

If it were mutually desirable for some reason, is it permissible to have deferrals underneath that and then like [we're] carrying charges and then recoup it post-operational types of things and can those types of structures work? In South Carolina are you allowed to do stuff like that?

Jimmy Addison: Vedula, I'd say we've -- I don't know if you're familiar with our 174 tax strategy and the proposed decrement rider. But essentially, that is the way we propose flowing that benefit back to the customer is to help offset some of these rate increases the next couple of years during the peak nuclear construction.

So while we don't see any deferral or lowering of the BLRA amount itself, we intend to kind of protect that process and let it operate as it should annually.

We do anticipate that this tax strategy is going to allow us to offset the real impact on a customer's bill on a real-time basis as we implement those increases.

Vedula Murti: Okay. And secondarily, you mentioned in your opening comments about having the ability to possibly engage in other EPC entity or whatever.

Can you give a sense as to, given where the project is today, how large a universe of companies or vendors you have to evaluate or whatever, so we can kind of think about it in terms of who you feel is capable of stepping in, if need be?

Steve Byrne: This is Steve. I think the universe is relatively small. Obviously, the folks who would be in the driver seat there would be Fluor.

Fluor's a company now that's been on site for about a year. So they've probably got most of the new nuclear construction experience, certainly in this country.

There are other companies in the U.S. that could do it, Bechtel, for example, and probably one or two others. And then around the world, there are a number of companies that have recent nuclear construction experience.

Areva is another company that would come to mind, a French company, but, certainly, they have operations here in the United States and have a U.S. wing. So they could actually do some of this construction.

So there are a variety of options available to us, a number in this country, but worldwide, it's a much bigger field.

Vedula Murti: And also, I think in an earlier question you were talking about the various critical paths, activities that you have coming up here over the first half of this year and going forward.

How close are you guys to getting to the point where the construction project is, like now becomes a more traditional construction project in the nuclear in and of itself is no longer like the defining factor in terms of getting from here to there?

Steve Byrne: Yes. I think we're actually pretty close to that. When you go through any major construction project, you do site prep, excavation. We're through all those. You discover things about the site that perhaps you didn't expect. Well, we're through all of that.

One of our bigger challenges was the procurement as the nuclear supply chain went dormant for many years. We've had to stimulate that again.

But the majority of the major equipment is actually on our site stored, and the remainder of it has been fabricated and some of it's actually on the high seas as we speak.

So I think by the end of the quarter, we'll probably have 90-plus percent of the major equipment on the site.

We're actually starting to accumulate most of the valves, for example. We've got 5,500, 5,600 valves that go into this plant, and I think we've got 5,400 of them at the site.

So from an equipment perspective, we're getting a handle on that.

One of our bigger issues was the initial fabrication facility for structural modules. That was in Lake Charles, Louisiana. That facility was problematic for us for a long period of time.

We have divested ourselves from that facility. So Westinghouse no longer has any modules, structural or otherwise, at the Lake Charles facility.

We have [spun up] other fabricators to handle modules, and those other fabricators seem to be doing a much, much better job of it.

And then Westinghouse had to become accustomed to what it meant to build one of these plants under the combined construction and operating license framework that the Nuclear Regulatory Commission has. We would call that a Part 52 License.

So you really have to construct it as it was designed. So that experience has been painful for the contractor and for us. But that experience has been learned.

I do think that we're going to see quantum leap in productivity for Unit 3, our second new unit. After we finish with the first one, we put the experience into our data bank and then we apply it to the second unit, Unit 3.

So most of those unique new nuclear activities, I think are getting behind us. Now we've got to focus on staffing the plant to the appropriate level with the right resources, bringing in leadership that understands what it takes to build a nuclear project and what the differences are between, I'll say traditional construction and nuclear construction.

So when Westinghouse discusses bringing in additional nuclear savvy resources on the nuclear island, what they're really talking about functionally is a bifurcation of the site such that we apply the non-nuclear standards to the non-nuclear portion of the plant, and certainly Fluor has been very good at that. Even for us, Fluor has built non-nuclear turbines for us. They built gas plants and coal plants and other things for us.

So regardless -- your question, a long-winded answer, but I think we're getting to that point very rapidly where the unique nuclear aspects and unique aspects of this new regulatory framework are getting behind us.

We've had challenges that you probably don't see in construction, even things like getting our operator's license, which is one reason I highlighted it in my comments upfront.

But I would have to say that the Nuclear Regulatory Commission, they've been learning some things. But they are working with us very well to make sure that we have those licensed operators when we need them to load fuel.

Vedula Murti: I have I guess one last thing. It's probably for Jimmy. Have you had any discussions with the agencies in terms of how, perhaps, a more elongated and elevated construction budget and that type of thing might affect ratings or might affect your financing approach going forward?

Jimmy Addison: We have. We've had timely discussions with all three in the last week or so.

And really, an elongated schedule doesn't really have an impact, per se, because of the aforementioned tax strategy I discussed. Our ratios are in pretty good shape and all of them were fairly comfortable with that.

The real issue that they are continuing to watch, like we all are, is just to make sure that Westinghouse is able to deliver on what they've said they will deliver on this week.

The concern that the agencies have is the same ones that we have, which is that if they were to not honor those contracts, what would the potential impact be?

So I would say that's the only issue, not really an elongated schedule.

Vedula Murti: Okay. Thank you very much.

Operator: [Claire Si] with Wolfe Research.

David Paz: This is David. Can you hear me?

Steve Byrne: Hey, David. Go ahead.

David Paz: Sorry to sneak in a question at the end here. But in your long-term growth rate, are you assuming that the ROE on the nuclear project is reset to whatever the prevailing ROE is at that time?

Jimmy Addison: No. David, you might think of it as vintages. So whatever's out there today will stay at the rate that it is. So the vast majority that's in rate base today is at 11%. The most recent increment was at 10.5, the increase that was just effective a few months ago.

And then those prospective, being the first one, would be the one we would file in 2017, would be at the 10.25, and the ones thereafter would be 10.25. But there is no resetting of the prior.

David Paz: So if I understand that then, let's just, hypothetically speaking, 2021, both units are fully in service, the ROEs are more in pieces not getting whatever the prevailing SCE&G ROE is in 2021?

Jimmy Addison: Right. So in the interim period what I described is what happens. At the end, it all goes into general rate base. There is no nuclear and non-nuclear rate base at the end. So it all goes into one rate base pot.

You view that as, you see what the overall earned return is and would, of course, compare that to what the allowed is at that point and would give consideration to whatever the current market conditions are.

David Paz: I understand. So really, some rate case post-2021, assuming everything's in service, that's when you'll have just one ROE, allowed ROE, for your entire SCE&G rate base, including the nuclear units?

Jimmy Addison: That's right.

David Paz: Okay. Great. All right. Thank you.

Operator: Mitchell Moss of Lord Abbett.

Mitchell Moss: Just wanted to get a little clarification on the slide 30, you mentioned in-service dates. And in prior presentations, you've mentioned guaranteed substantial completion dates.

Are those the same? In other words, is the guaranteed substantial completion date now April 2020 and December 2020?

Steve Byrne: Yes. This is Steve, Mitchell. No, the dates are not the same. The guaranteed substantial completion dates is our contractual date, and those are used to start the calculation for liquidated damages.

So if the plants are not in service by the guaranteed substantial completion dates, which are not changed, then liquidated damages would start to accrue.

The Westinghouse numbers that we have put out for the in-service dates, that's when Westinghouse has told us now they expect the plants to be in service.

Mitchell Moss: So, in other words, if it goes sort of as planned from August of 2019, for Unit 2, for instance, from August of 2019 through April of 2020, liquidated damages will accrue?

Steve Byrne: Correct.

Mitchell Moss: Okay. And for the purposes of the regulatory approval, I guess the final regulatory approval, beyond Westinghouse's in-service dates, is there additional testing or timing, anything else before sort of the regulators will give its final seal of approval, I guess, on this?

Jimmy Addison: Are you speaking NRC or state?

Mitchell Moss: State. Yes, under the BLRA, I guess just to say that this project's effectively been completed.

Jimmy Addison: The state regulation, the BLRA, when they grant us the [convenience] and necessity upfront, it includes the right to construct it and operate the plant. So we don't have to have another hearing at the conclusion to have it put into service.

We file a estimate of the O&M costs, the depreciation, et cetera, that goes in in the last BLRA proceeding. But that's not a litigated proceeding.

Mitchell Moss: Okay. But there doesn't need to be any type of an operating performance test for a certain amount of time post the in-service dates, anything like that?

Jimmy Addison: I'm going to hand that back to Steve to talk about NRC perspective, et cetera.

Steve Byrne: Yes. So contractually, if we put the plants in service that means that they have to have passed a performance test. So, yes, they'll not only have completed the plant, we will have loaded fuel, we will have done our start-up testing, but the plants have to be operating at or near 100% for a period of time before they can guarantee -- before they can prove to us that the output guarantee has also been met.

So, yes, the plants will be up and operating at the time they claim substantial completion.

Mitchell Moss: Do you have an estimate about what that period of time is?

Steve Byrne: Well, from fuel load to substantial completion, there's about six months. And when Westinghouse is giving us their in-service dates, that's a substantial completion date.

Mitchell Moss: Okay. And then operating at 100% time, is that after substantial completion, though?

Steve Byrne: Well, no. The substantial completion, they have to demonstrate that the units are performing as they had told us they would perform. So the unit has to actually have been at 100% and they have to run a test to verify that the megawatt output is what they guaranteed it would be at 100%.

Mitchell Moss: Okay. I understand. Thank you very much.

Operator: Ladies and gentlemen, this concludes our question-and-answer session. I would like to turn the conference back over to Kevin Marsh for any closing remarks.

Kevin Marsh: Thank you. 2016, although not without its various challenges, marked another successful year for our Company.

We're very pleased with our underlying economic growth, the operation of our businesses, and our financial results.

We look forward to 2017, and continue to focus on the new nuclear construction project, as well as on operating all businesses in a safe, reliable, and efficient manner.

Thank you for joining us today and for your continued interest in SCANA. Thank you.

Operator: And thank you, sir. The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.